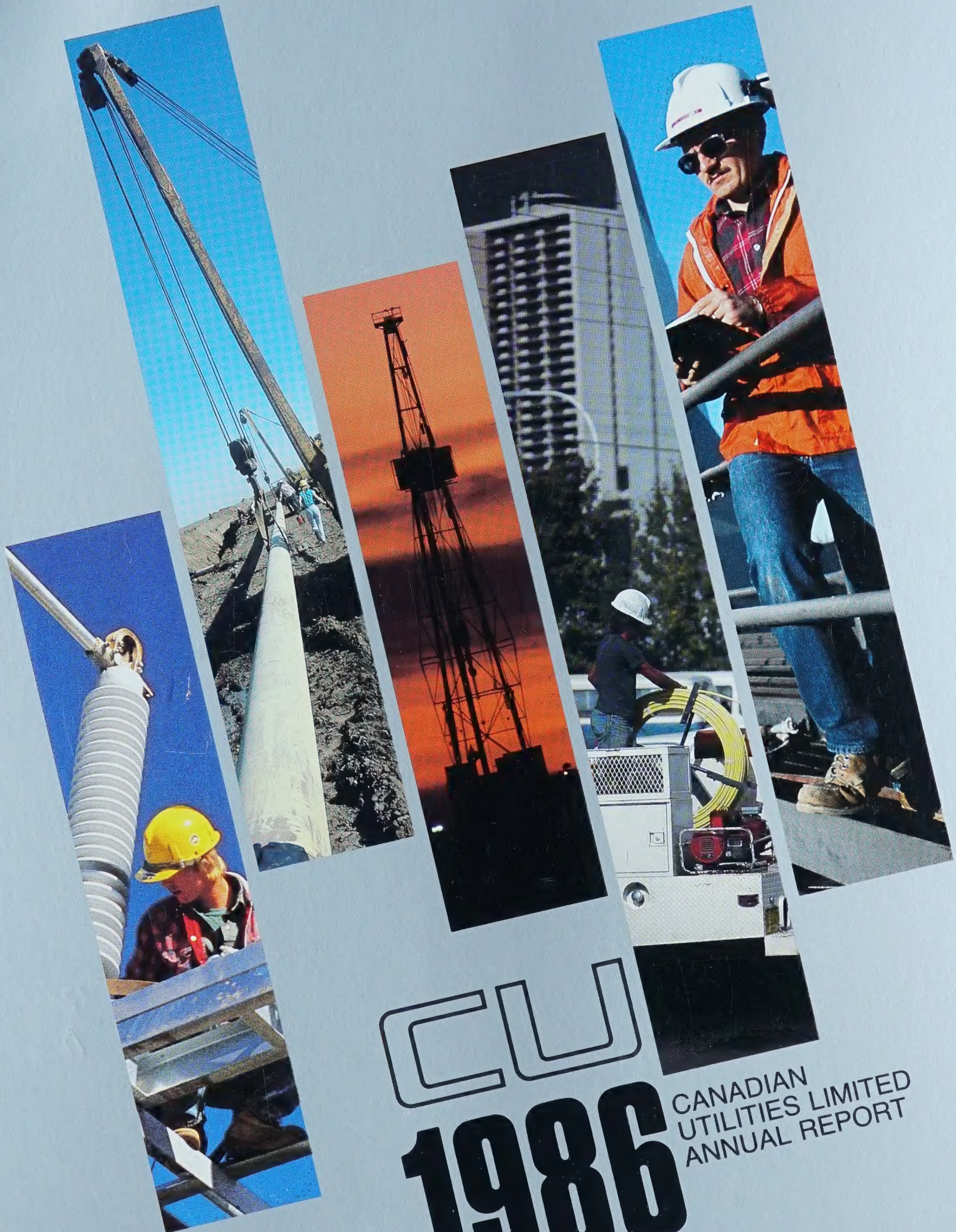
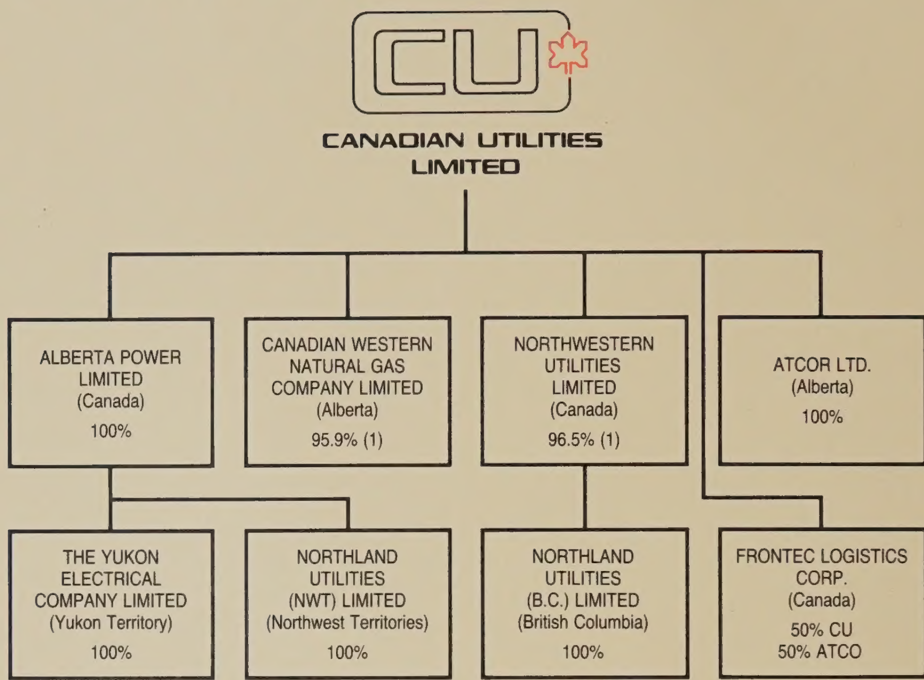


CU

1986

CANADIAN UTILITIES LIMITED
ANNUAL REPORT

CORPORATE STRUCTURE



This chart shows the names of CU's operating subsidiaries, the jurisdictions in which they were organized and the percentages of their voting securities owned by CU.

Note 1: The minority interest is by way of voting non-participating preferred shares.

CORPORATE MISSION

Canadian Utilities Limited is an investor-owned Alberta-based company, committed to achieving above average earnings and dividend growth through a balance of its core utility operations and diversified but complementary non-utility ventures. The Company is dedicated to being a leader in the optimization of human, technological and financial resources while maintaining its reputation for integrity and quality of service.

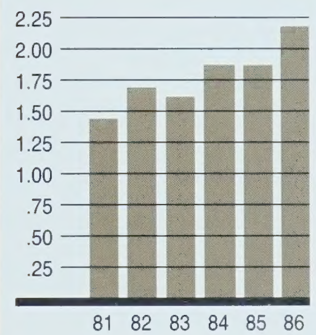
HIGHLIGHTS

	1986	1985	Increase (Decrease)
Revenues (thousands)			
Natural gas	**$ 737,058**	$ 854,099	$(117,041)
Electric	**375,184**	323,954	51,230
Non-utility			
Energy operations	**130,790**	147,237	(16,447)
Other	**1,770**	646	1,124
Total	**$1,244,802**	$1,325,936	$ (81,134)
Earnings attributable to shares*# (thousands)	**$ 116,944**	$ 101,409	$ 15,535
Earnings per share*#	**$ 2.16**	$ 1.87	$ .29
Equity per share*#	**$ 12.89**	$ 12.02	$ .87
Dividend per share*			
Annual	**$ 1.285**	$ 1.22	$ .065
Fourth Quarter	**$ .325**	$ .32	$ .005
Shares* outstanding	**54,216,574**	54,211,574	5,000

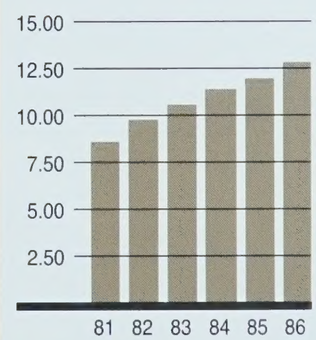
* Class A non-voting and Class B common shares
\# Results for 1985 have been restated

	1986	1985	Increase (Decrease)
Capital expenditures (thousands)	**$ 248,142**	$ 235,618	$ 12,524
Customers at year-end			
Natural gas	**610,097**	601,794	8,303
Electric	**149,764**	147,124	2,640

Earnings per Class A and Class B Share
(dollars)



Equity per Class A and Class B Share
(dollars)



CONTENTS

TO THE SHAREHOLDERS

Chairman of the Board and Chief Executive Officer R. D. Southern (seated) and J. D. Wood, President and Chief Operating Officer.

Canadian Utilities Limited earnings attributable to Class A and Class B shares for the year ended December 31, 1986 were $116,944,000 ($2.16 a share) compared to $101,409,000 ($1.87 a share) in 1985.

These 1985 results have been restated to conform with the Guideline of The Canadian Institute of Chartered Accountants to account for the Company's non-regulated petroleum and natural gas assets. The Company had previously reported 1985 earnings of $111,949,000 ($2.07 a share). The 1986 figures include an after-tax write-down of $3,585,000 (7¢ a share) in the book value of the petroleum and natural gas properties of ATCOR Ltd.*, CU's non-utility subsidiary. Details of this accounting change are provided in the financial review section and in Note 7 to the financial statements.

Contributing significantly to 1986 earnings were utility rate increases approved by the Alberta Public Utilities Board; improved productivity; improved electrical retail sales; and a gain on the sale of a portion of CU's investment in TransAlta Utilities Corporation.

Revenues for 1986 of $1,244,802,000 were down 6% from the previous year, due to warmer weather and the elimination of the Federal Government's Canadian Ownership Special Taxation and the Petroleum and Natural Gas Revenue Tax.

Electric sales to retail customers rose 14% during 1986 to 4,919 million kilowatt hours. Higher electric energy sales resulted from new resource projects coming on stream and increased use of electricity for natural gas extraction and processing. Natural gas throughput (sales plus gas transported through the Company's pipeline systems) declined 11% to 419 petajoules. The reduction was largely the result of warmer temperatures.

The Company's customer base continued to grow during the year. At December 31, 1986 the natural gas utilities were serving 610,097 customers, up 8,303 from a year earlier, while electric utility customers numbered 149,764, an increase for the year of 2,640.

Since 1981, the Company has been engaged in a program to increase productivity. In the ensuing 5 years, while the total number of utility customers served has increased by 11%, the total number of employees has declined from 4,313 to 4,099, a reduction of 5%.

ATCOR Ltd. experienced a modest increase in the volume of natural gas sold through its gas marketing division in 1986. ATCOR's natural gas processing operations showed some growth even though markets for ethane and natural gas liquids remained weak and highly price competitive. Oil and gas exploration and production activity followed the industry's downward trend. Recently, however, Gulf Canada Corporation announced plans to begin drilling production wells at its Amauligak discovery in the Beaufort Sea. ATCOR, in its own right and as a partner in AT&S Exploration Ltd., holds a 6% interest in the Amauligak structure, which contains an estimated 800 million barrels of proven and probable reserves.

CU is actively exploring a number of non-utility opportunities, some of which are described in the operations sections of this report.

The Alberta economy is undergoing an adjustment resulting from the oil price drop in early 1986. This adjustment is likely to last for several years as the oil and gas industry restructures in response to low oil prices. Agriculture is also under pressure due to falling grain prices brought about by world surpluses and massive subsidization programs in Europe and the U.S. Alberta's metallurgical coal industry is suffering from reduced world demand and intense competition from low cost producers. Future economic growth in Alberta is primarily dependent upon energy prices. If a combination of market forces and production discipline within OPEC produces international oil price stability in the $15-$18 (U.S.) range during the next year, the Province will begin a period of steady economic recovery.

In October, 1986 the Board of Directors declared a fourth quarter dividend of 32½¢ per Class A and Class B share, up from 32¢ in the previous 4 quarters. The common share dividend has increased 16 times in the past 15 years.

There were no changes among the directors and officers of CU during 1986; however, the Company's utility subsidiaries announced the appointments of B. M. Dafoe as President of Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited, and C. O. Twa as President of Alberta Power Limited. Messrs. Dafoe and Twa report to W. R. Horton, Executive Vice President, Utilities for CU. Other officer appointments in the subsidiary companies are mentioned in the appropriate sections of this report.

Northwestern Utilities Limited welcomed to its Board of Directors J. E. Lougheed and S. D. McGregor.

Each year, employees at all levels of the organization are required to set performance objectives and seek ways of reducing costs. The Company's earnings, declining employee/customer ratio and, as indicated by surveys, the continuing high regard of customers for the quality of utility service they receive, are testimony to the success of employees in reaching their objectives without compromising the traditionally safe, reliable and courteous service for which our companies are known.

The Board of Directors is pleased to extend its gratitude to employees for their achievements and dedication. The Board also wishes to thank suppliers for meeting the Company's demanding standards and to customers for their continuing advice and support.

On behalf of the Board of Directors

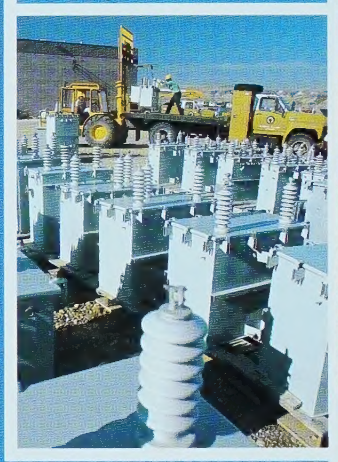
R. D. Southern, Chairman and Chief Executive Officer

J. D. Wood, President and Chief Operating Officer

February 16, 1987

*ATCOR Ltd. is the operating company of CU Enterprises Inc., which was formerly ATCOR Resources Limited.

UTILITY OPERATIONS



Canadian Utilities' natural gas operations are carried out by 2 utilities, Canadian Western Natural Gas Company Limited, which serves southern Alberta including the cities of Calgary, Lethbridge and Airdrie, and Northwestern Utilities Limited, which serves north-central Alberta including Edmonton, Camrose, Fort McMurray, Fort Saskatchewan, Grande Prairie, Lloydminster, Red Deer, Sherwood Park, St. Albert, Spruce Grove and Wetaskiwin. Northwestern Utilities' subsidiary, Northland Utilities (B.C.) Limited, serves Dawson Creek and district and the community of Tumbler Ridge in northeastern British Columbia. At the end of 1986 the Company's natural gas utilities were serving 610,097 customers, up 8,303 from December 31, 1985.

NATURAL GAS OPERATIONS

Earnings and Revenues

Natural gas operations' contribution to CU earnings in 1986 declined by 18% from 1985. Warmer temperatures during the 1986 billing period reduced earnings, as did a reduced allowance for funds used during construction, increased operation and maintenance expenses to serve new customers and a higher effective tax rate, partially offset by savings from the purchase of lower priced gas on the spot market.

Consolidated revenues of $737.0 million for 1986 were $117.1 million lower than 1985. Revenues decreased $51.9 million due to the impact of warmer weather on residential and commercial sales; $52.9 million of reduced industrial sales mainly resulting from the transfer of industrial sales to transportation service; and $22.0 million from rate reductions made possible by the elimination of the Canadian Ownership Special Taxation and the Petroleum and Natural Gas Revenue Tax. Helping to maintain revenues was a $10.6 million general rate increase approved by the Alberta Public Utilities Board for Canadian Western.

Total operating expenses, which include the cost of natural gas supply, operation and maintenance, depreciation and depletion, taxes other than income taxes and income taxes, amounted to $654.2 million, down $109.7 million from 1985. Natural gas costs were reduced by $83.4 million, while taxes other than income were lower by $27.5 million mainly due to elimination of the Canadian Ownership Special Taxation.

Natural Gas Throughput

Total system throughput was 419 petajoules (PJ)* in 1986, a decrease of 11% from 471 PJ in the previous year. Sales and transportation volumes were lower by 42 PJ and 10 PJ respectively. Temperature sensitive sales were lower by 19.6 PJ while industrial sales declined by 18.3 PJ due mainly to a shift of high volume customers from sales to transportation service. Lower transportation volumes were due primarily to a reduction in the requirements of exporting companies and a reduction in natural gas demand for fertilizer production. The utilities transport gas within Alberta for exporting companies and for industrial customers who have contracted for their gas supplies directly with brokers or producers.

* The metric unit for measurement of energy is the joule (J) and its multiples. Large amounts of energy are reported in gigajoules (GJ), billions of joules; in terajoules (TJ), trillions of joules; and in petajoules (PJ), quadrillions of joules. One joule is equivalent to .00095 British Thermal Units.

Natural Gas Sales and Transportation

	Terajoules	% of Total
Sales		
Industrial	55,582	13.3
Commercial	89,337	21.3
Residential	84,023	20.1
Other	6,520	1.5
	235,462	**56.2**
Transportation	111,875	26.7
	347,337	**82.9**
Sales and transportation — affiliates	71,443	17.1
Total system throughput	**418,780**	**100.0**

Construction progresses at Canadian Western's metering station at the Shell Jumping Pound gas plant west of Calgary. An aerial view of the same plant is shown on page 2. Inset, upper left: Ornamental streetlighting in Drumheller, served by Alberta Power. Upper right: Northwestern Utilities main control station, Edmonton. Lower left: New Alberta Power storage and service yard at Drumheller. Lower right: Surface tubing at Northwestern's underground salt cavern natural gas storage facility near Fort Saskatchewan, Alberta.

Gas Operations Earnings Contribution

	1986	1985	1984	1983	1982	1981	Annual Growth Rate 1981-86
				($ Millions)			%
Natural gas revenues	**737.0**	854.1	861.2	928.4	959.1	779.2	(1.1)
Operating expenses							
Natural gas supply	**395.9**	479.3	517.3	512.6	444.8	442.2	(2.2)
Operation and maintenance	**122.3**	120.1	117.1	114.2	107.6	86.4	7.2
Taxes — other than income	**54.0**	81.5	97.9	207.3	306.2	185.6	(21.9)
Taxes — income	**53.9**	57.4	36.4	24.2	21.8	9.3	42.1
Depreciation and depletion	**28.1**	25.6	22.9	17.2	17.1	13.9	15.1
	654.2	763.9	791.6	875.5	897.5	737.4	(2.4)
	82.8	90.2	69.6	52.9	61.6	41.8	14.6
Other deductions — net	**39.7**	37.8	35.4	26.7	28.6	20.3	14.4
Earnings attributable to Class A and Class B shares	**43.1**	52.4	34.2	26.2	33.0	21.5	14.9
Mid-year common equity investment	**224.3**	204.4	183.2	171.8	145.2	117.9	13.7

Regulatory Activity

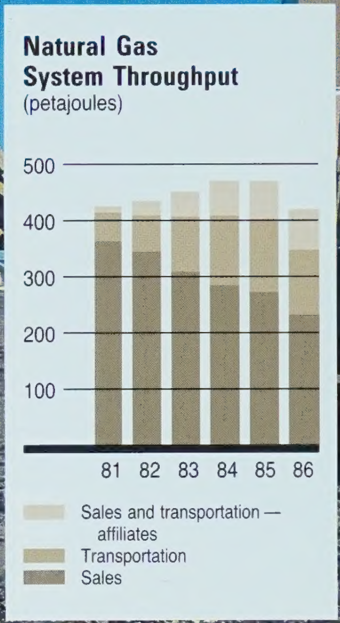
Government administered pricing of natural gas in Canada came to an end on October 31, 1986. With deregulation, the Alberta Border Price has been replaced by negotiated prices. More than half of the utilities' gas supply is subject to price redetermination. If a negotiated settlement is not reached, the price would be subject to arbitration. The Alberta Government proclaimed the Arbitration Amendment Act, 1986, on October 30, 1986. Previously, only the price of alternative fuels could be taken into consideration if contracts were to be arbitrated. Under the new Act consideration must be given to the prices of other competing natural gas in the buyer's market and to the prices of other Alberta natural gas produced and sold under other natural gas sales contracts.

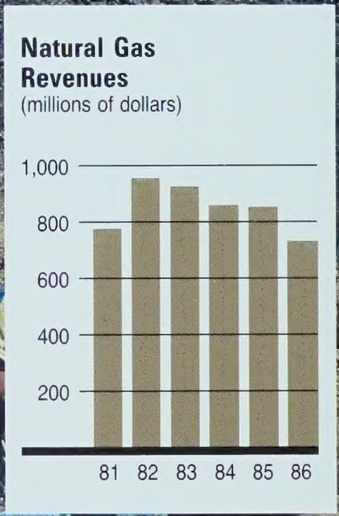
On December 30, 1986 the Alberta Public Utilities Board released a report on the Natural Gas Transportation Rates Inquiry held earlier in the year with virtually all major Alberta gas producing and consuming interests represented. The Board generally confirmed Canadian Western's and Northwestern's existing transportation services, rates and contracts and ordered the utilities, in addition, to provide 1, 2 and 3-year transportation services at rates somewhat higher than those charged for longer term service.

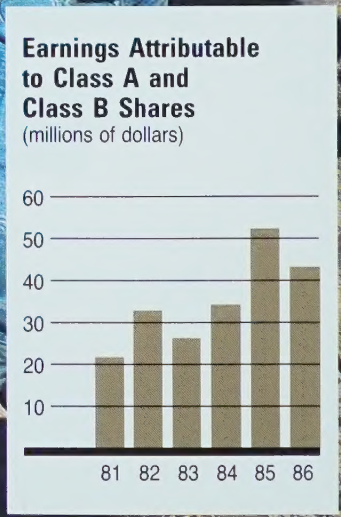
A final Phase II decision on Canadian Western's 1985 general rate application to the Alberta Public Utilities Board was received in December 1986. With the exception of transportation rates, the Board fixed and approved final rates effective January 1, 1987 and found the interim rates under which Canadian Western operated during 1985 and 1986 to be reasonable.

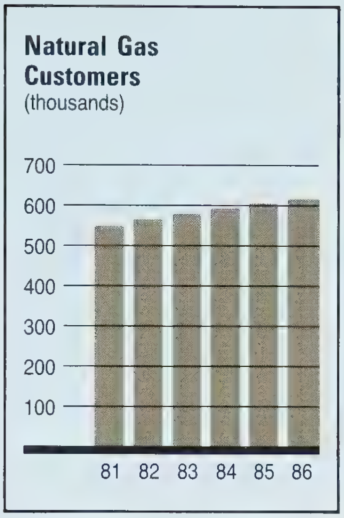
In February 1987, the Alberta Public Utilities Board issued a decision on Northwestern's general rate application for 1984 and 1985. The decision awarded additional revenues of $2.9 million that will be recorded in 1987. The Board also ordered that a schedule of revenue surplus or deficiency is to be filed for 1986 to determine appropriate additional revenues to be collected or refunds to be made in 1987.

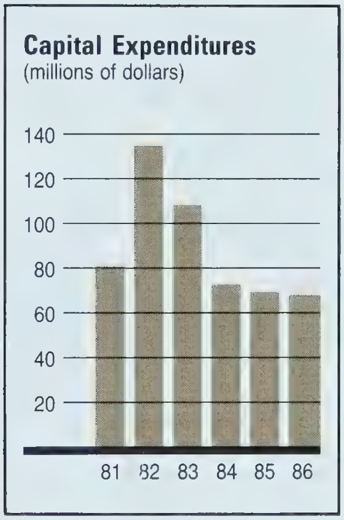
New gas transmission line prepared for installation on Canadian Western's system in southern Alberta. Inset, upper left: Pipeline construction, Bow Island. Right: Staff instruction session in Calgary on data capture equipment for meter readers. Below: Northwestern Utilities' customer service dispatch centre, Edmonton.

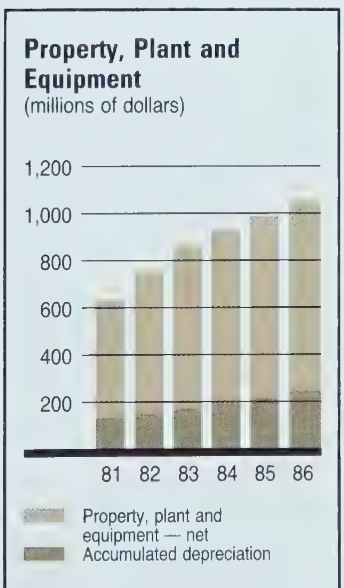

Natural Gas
System Throughput
(petajoules)
500
400
300
200
100
81 82 83 84 85 86
Sales and transportation —
affiliates
Transportation
Sales


Natural Gas
Revenues
(millions of dollars)
1,000
800
600
400
200
81 82 83 84 85 86


Earnings Attributable
to Class A and
Class B Shares
(millions of dollars)
60
50
40
30
20
10
81 82 83 84 85 86





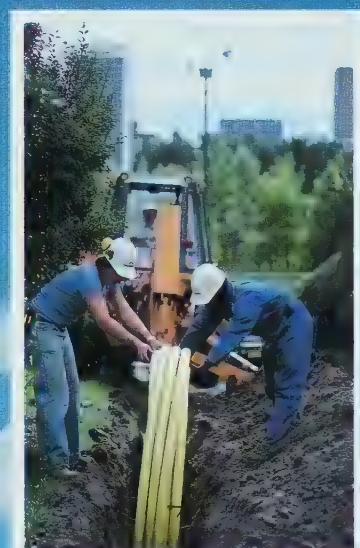


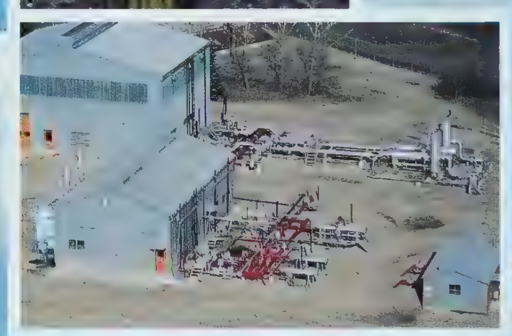
Construction Projects

Capital expenditures to provide for natural gas customer growth and to meet the needs of existing customers amounted to $68.0 million in 1986. At year-end, net property, plant and equipment required to serve customers increased to $806.6 million.

Northwestern Utilities expanded its system in the Dawson Creek, British Columbia area to accommodate up to 500 new customers in this coal mining region. Another major Northwestern project was the construction of a compressor at Lindbrook, east of Edmonton, to enhance natural gas production from the Beaverhill Lake west fields.


NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
FORT McMURRAY
DAWSON CREEK
PEACE RIVER
FAIRVIEW
McLENNAN
TUMBLER RIDGE
GRANDE PRAIRIE
SWAN HILLS
COLD LAKE
GRANDE CACHE
MAYERTHORPE
LEGAL
SALT CAVERNS
EDSON
HINTON
EDMONTON
VEGREVILLE
VERMILION
DRAYTON VALLEY
LLOYDMINSTER
JASPER
CAMROSE
VIKING FIELD
WETASKIWIN
PROVOST
BATTLE RIVER
RED DEER
CORONATION
CARBON
BANFF
AIRDRIE
SHEERNESS
CALGARY
BROOKS
VULCAN
BOW ISLAND
MEDICINE HAT
FORT MACLEOD
LETHBRIDGE
CARDSTON
FOREMOST
U.S.A.
NATURAL GAS SYSTEM
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED
NORTHWESTERN UTILITIES LIMITED
MAJOR TRANSMISSION AND FIELD GATHERING PIPELINES
MAJOR PIPELINES OWNED BY OTHERS





Canadian Western completed the replacement of the 49-kilometre final leg of the original 16-inch 1912 mainline between Bow Island and Taber. Canadian Western also replaced the metering station at the Shell Jumping Pound gas plant west of Calgary and installed a 15-kilometre pipeline from Taber to Wrentham.

The effective management of resources is a high priority of both Canadian Western and Northwestern. During 1986, the increase in operation and maintenance expense was held to less than the increase in the Consumer Price Index.

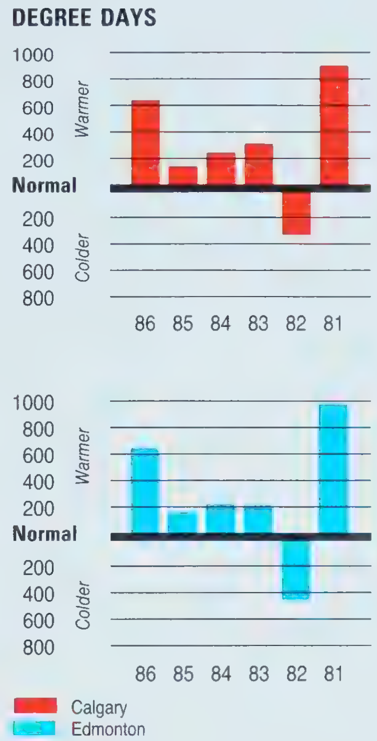
Operating in the second year of a 2-year agreement with the natural gas employees' associations, the utilities and the associations agreed to go to arbitration to determine wages in 1986. The arbitration award provided permanent employees with a lump sum payment equivalent to 3½% of base pay.

New Appointments

The following officer appointments were announced by the natural gas utilities during the year: For both Canadian Western Natural Gas and Northwestern Utilities, B. M. Dafoe was appointed President, W. L. Graburn, Vice President and General Manager, Gas Supply, G. W. Richards, Vice President, Rate Administration and G. W. Welsh, Vice President, Gas Supply Engineering.

For Canadian Western Natural Gas, A. J. L. Fisher was appointed Senior Vice President and General Manager, J. W. Fildes, Vice President, Operations, J. D. Graham, Vice President, Engineering and Construction, T. J. Storey, Vice President and Controller and J. M. Willsher, Vice President, Administration and Marketing.

For Northwestern Utilities, R. G. Lock was appointed Senior Vice President and General Manager, R. Armstrong, Vice President, Engineering and Construction, D. M. Ellard, Vice President, Administration and Marketing, R. M. Massé, Vice President and Controller and G. K. Munk, Vice President, Operations.



DEGREE DAYS: **The number of degrees by which daily mean temperature falls below 18 degrees C. One degree day is counted for each degree of deficiency for each day on which such a deficiency occurs. For example, if the mean temperature for a day was 10 degrees C, then there are 8 degree days during the 24-hour period.**

ELECTRIC POWER OPERATIONS

Canadian Utilities' major electric utility, Alberta Power Limited, serves 324 communities in east-central and northern Alberta, including Fort McMurray, Grande Prairie, Lloydminster, Drumheller and Peace River, and 2 communities in Saskatchewan.

Alberta Power's subsidiary companies, The Yukon Electrical Company Limited and Northland Utilities (NWT) Limited, serve 18 communities in the Yukon, one community in British Columbia and 6 communities in the Northwest Territories.

Energy sales to retail customers in 1986 increased by 14% to 4,919 million kilowatt hours. In addition, 1,166 million kilowatt hours were sold to the City of Edmonton under a unit power agreement.

During 1986, 2,640 retail customers, including several major oil and gas customer loads, were added, bringing the year-end total to 149,764 customers. Included in this number were 26,771 farm customers of whom 14,937 are members of 88 rural electrification associations. During 1986, 10 rural electrification associations comprising 1,482 members voted to transfer their distribution systems to Alberta Power.

Electric Power Sales

	Thousands of Kilowatt Hours	% of Total
Industrial	2,779,027	56.5
Commercial	1,015,101	20.6
Residential	696,135	14.2
Other	428,527	8.7
	4,918,790	**100.0**

The peak load created by Alberta Power's retail customers increased to 895 megawatts in 1986 from 844 megawatts the previous year.

The table above shows 1986 electric sales to the various customer groups (excluding sales to other utilities).

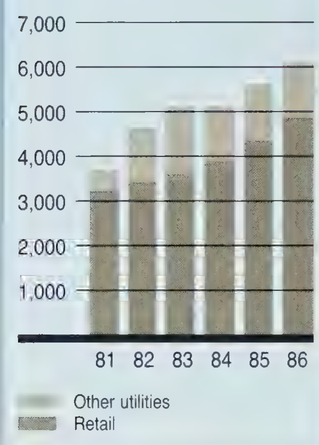
The first 375-megawatt unit of the Sheerness Generating Station commenced regular operation on January 1, 1986. The second unit is approved to begin operation in 1990, although lower demand forecasts may require a further deferral. The station, and the associated coal-handling facilities, are jointly owned with TransAlta Utilities Corporation, with Alberta Power serving as the managing partner.

New Direction

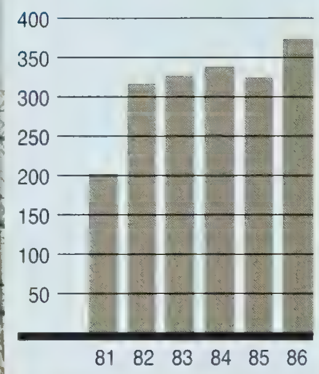
In 1986, Alberta Power embarked on a program of business diversification and corporate improvement to better position itself to meet changes in the electric utility industry. A key part of that process has been an in-depth review of corporate direction and philosophy. The intent is to strengthen Alberta Power's utility base while providing a springboard for new business ventures.

In keeping with this philosophy, a major undertaking in 1986 was the creation of Frontec Logistics Corp., a joint-venture company established and owned equally by ATCO Ltd. and Canadian Utilities Limited to pursue business opportunities related to facilities management and operation and maintenance in the North.

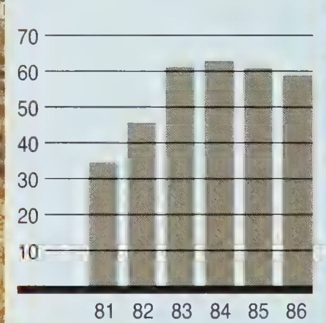
Electric Sales
(millions of kilowatt hours)



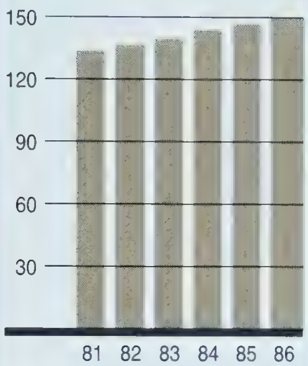
Electric Revenues
(millions of dollars)



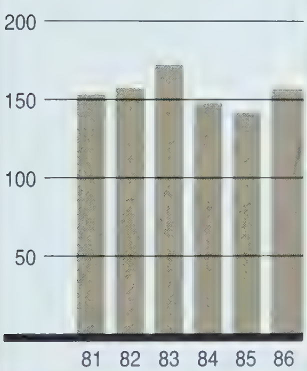
Earnings Attributable to Class A and Class B Shares
(millions of dollars)



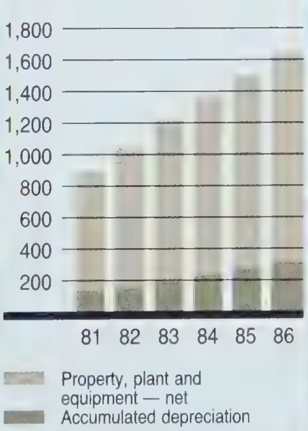
Electric Customers
(thousands)



Capital Expenditures
(millions of dollars)



Property, Plant and Equipment
(millions of dollars)



Frontec is bidding on 2 major projects: the planned North Warning System and operation of the existing Distant Early Warning (DEW) Line. The North Warning System, funded on a 60-40 basis by the United States and Canada, will consist of 52 short and long-range radar stations across Alaska, the Canadian Arctic and the Labrador Coast. It will replace the DEW Line by 1992.

Early in the year, The Yukon Electrical Company was selected by the Yukon Territorial Government to provide transition utility management services related to the transfer of assets from the Northern Canada Power Commission (NCPC) to the Yukon Government.

Agreements were reached with the employees' associations of Alberta Power, The Yukon Electrical and Northland Utilities (NWT) under which the members of each association receive a 3% salary increase in each of 1987 and 1988. The current working agreements with the employees' associations remain in force until the end of 1988.

Two officer appointments were announced within electric operations during 1986: C. O. Twa was appointed President of Alberta Power Limited and G. K. Bauer was appointed Vice President and General Manager of both The Yukon Electrical Company Limited and Northland Utilities (NWT) Limited.

Regulatory Activity

On January 31, 1986 Alberta Power filed a set of rate schedules to meet the requirements of a December 1985 Public Utilities Board decision. Included in that decision was a requirement to refund $42 million to customers in respect to 1984 and 1985. The full impact of these refunds was recorded in 1985. Interim rates were implemented in March 1986 and approved as final in October.

In June 1986, Alberta Power applied to the Board to determine a rate base and to fix revenues and rates for 1986 and 1987. The application requested a revenue increase of $67.9 million in 1986 over 1985 and a further increase of $43.2 million in 1987.


OLD CROW
ARCTIC CIRCLE
U.S.A.
YUKON
NWT
FORT PROVIDENCE
WHITEHORSE
WATSON LAKE
HAY RIVER
BRITISH COLUMBIA
ALBERTA
NORTHWEST TERRITORIES
HIGH LEVEL
FORT CHIPEWYAN
ALBERTA
BRITISH COLUMBIA
FORT McMURRAY
PEACE RIVER
SASKATCHEWAN
GRANDE PRAIRIE
STURGEON PLANT
COLD LAKE
H. R. MILNER PLANT
GRANDE CACHE
EDMONTON
VEGREVILLE
JASPER
LLOYDMINSTER
BATTLE RIVER PLANT
HANNA
SHEERNESS
DRUMHELLER
OYEN
CALGARY
LETHBRIDGE
U.S.A.
ELECTRIC SYSTEM
ALBERTA POWER LIMITED
SERVICE AREA
MAJOR TRANSMISSION
GENERATING PLANTS
LINES OWNED BY OTHERS
OTHER ELECTRIC UTILITIES

Electric Operations Earnings Contribution

	1986	1985	1984	1983	1982	1981	Annual Growth Rate 1981-86
			($ Millions)				%
Electric revenues	**375.2**	324.0	340.3	327.2	316.3	201.7	13.2
Operating expenses							
Operation and maintenance	**148.5**	137.3	128.7	122.3	131.4	93.7	9.6
Taxes — other than income	**13.4**	12.6	12.5	12.3	9.9	7.2	13.2
Taxes — income	**59.5**	46.2	60.4	58.2	56.0	17.8	27.3
Depreciation and depletion	**42.9**	30.5	34.1	31.8	29.8	20.9	15.5
	264.3	226.6	235.7	224.6	227.1	139.6	13.6
	110.9	97.4	104.6	102.6	89.2	62.1	12.3
Other deductions — net	**51.8**	36.6	41.7	41.3	43.6	27.2	13.8
Earnings attributable to Class A and Class B shares	**59.1**	60.8	62.9	61.3	45.6	34.9	11.1
Mid-year common equity investment	**374.4**	350.4	323.7	293.7	243.1	198.5	13.5

Rates were approved on an interim basis in October. In setting the interim rates, the revenue requirement included a rate of return on that portion of the rate base deemed to be financed by common equity of 14%.

After recording the effect of these decisions, electric operations' contribution to CU's 1986 earnings decreased 2.8% from 1985.

A decision establishing 1986 and 1987 revenue requirement is expected in early 1987 after which current rates will be modified if necessary.

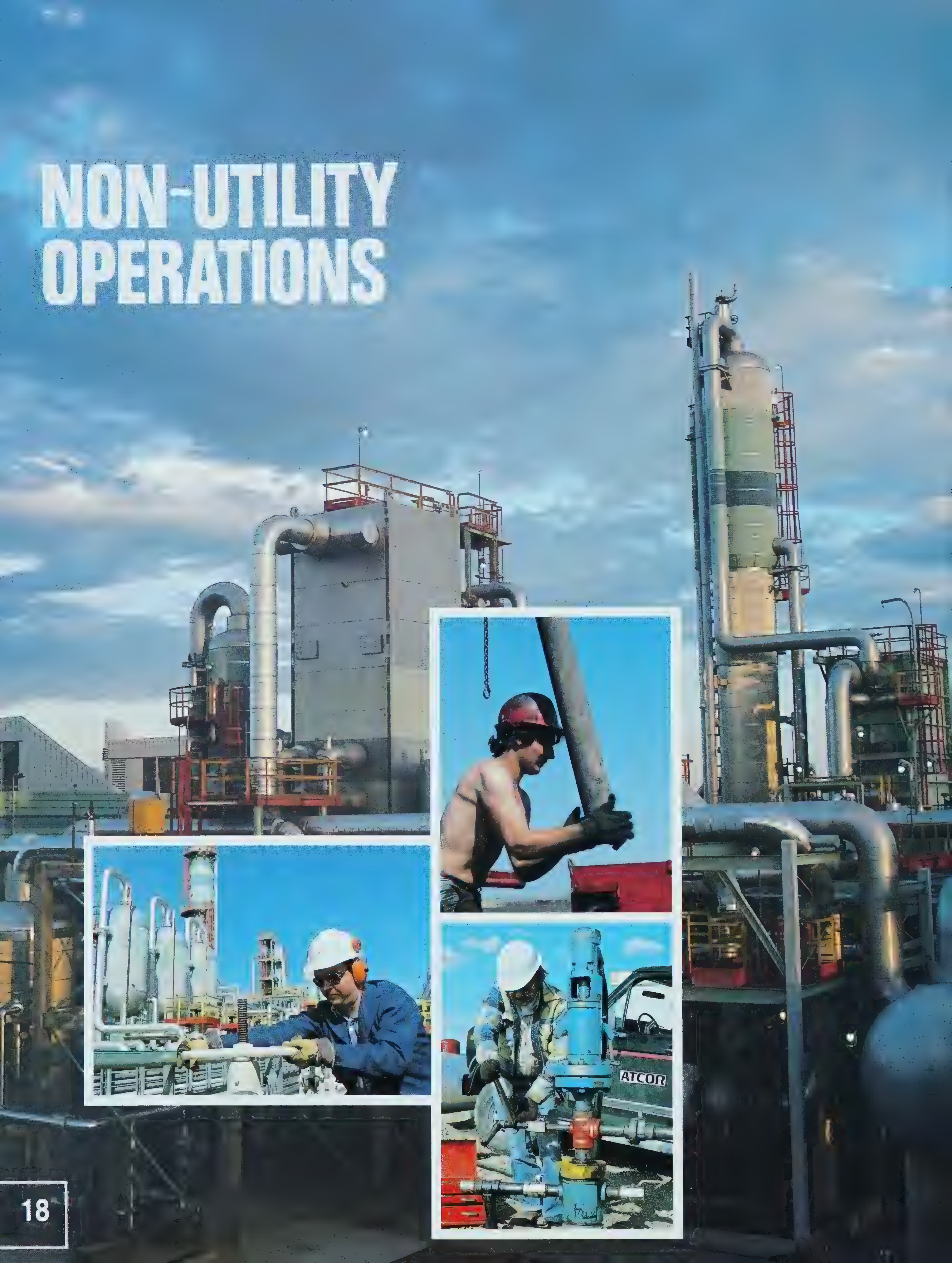
Construction Projects

Alberta Power's capital expenditures during the year totalled $156.2 million, including $34.8 million on the Sheerness Generating Station.

Expenditures on transmission projects during the year totalled $80.5 million. Major projects included initiating construction of a 240-kilovolt line from Whitefish Lake to Mildred Lake, a 240-kilovolt line from Deerland to Marguerite Lake and a 240-kilovolt line from Louise Creek to Little Smoky.

Major expenditures on transmission projects are expected to continue in 1987 as Alberta Power responds to the increased needs in its service area, particularly those related to resource development in northwest Alberta, the Cold Lake area and Fort McMurray.

NON-UTILITY OPERATIONS



In spite of difficulties stemming from the drop in world oil prices, CU's major non-utility subsidiary, ATCOR Ltd., was profitable during 1986.

ATCOR is in a better position than most junior exploration companies to withstand the impact of falling oil and gas prices. Because of its involvement in natural gas processing and marketing, lower oil and gas prices offer ATCOR certain benefits, such as lower costs for feedstock and increased demand for gas.

Management believes that the economics of exploring for oil and gas are good, provided that world oil prices remain above $15 (U.S.) a barrel.

Financial Highlights

Operating income before income taxes and the write-down of oil and natural gas assets fell by 22%. The drop was primarily due to a 55% decline in the average selling price of oil, a 20% drop in natural gas production, a 15% fall in natural gas prices and a 29% drop in the average price received for liquid petroleum gases (LPGs). These reductions were partially offset by a 53% increase in fees from gas processing and an increase in gas marketing volumes.

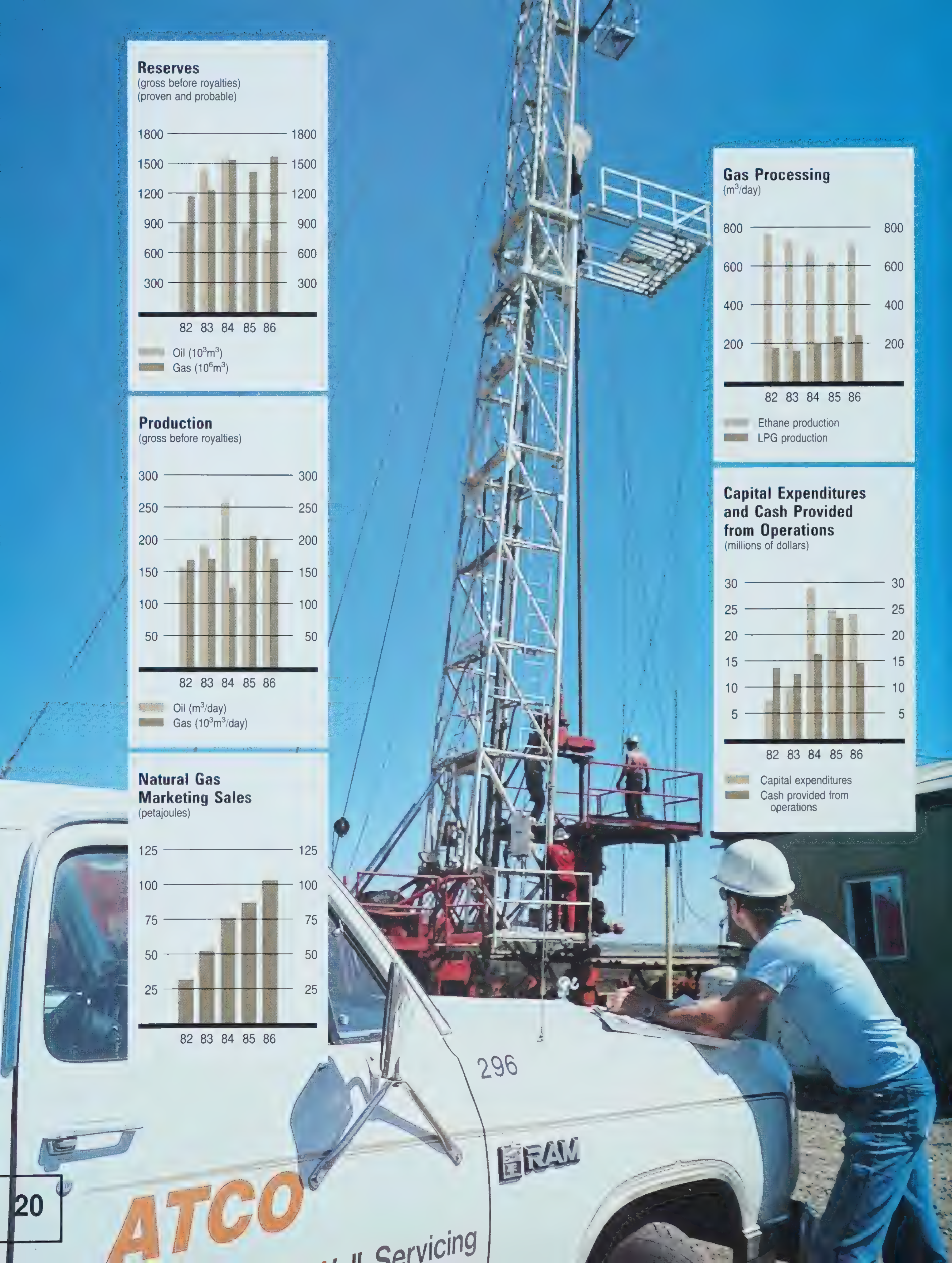
In 1986, ATCOR retroactively changed its method of accounting for oil and gas operations to conform to the full-cost Guideline issued by The Canadian Institute of Chartered Accountants. The result was a write-down of the net book value of petroleum and natural gas assets by $5.1 million before taxes in 1986. The write-down reflects ATCOR's policy of limiting the book value of oil and gas properties to the aggregate of estimated future net income (at current prices and costs) from proven oil and gas reserves and the lower of cost or fair value of undeveloped acreage.

Net capital expenditures on exploration and production activities, excluding expenditures on AT&S Exploration Ltd. (see below), were $13.7 million, down 13% from the previous year. The drop in capital expenditures was due to the cancellation of several projects in the wake of falling oil prices. An additional $8.8 million was invested in frontier exploration both directly, through a farm-in on the Amauligak structure in the Beaufort Sea, and indirectly through AT&S's activities on Canada Lands.

Exploration and Production

1986 marked the beginning of an important change in direction for ATCOR's exploration and production activities. The new strategy involved 4 key elements: adding to reserves with an emphasis on finding natural gas; in-house generation of quality prospects, stressing larger targets in multizone areas; larger working interests with a preference for prospects offering ATCOR a share in excess of 50%; and development of geological expertise in specific areas with the aim of developing on-going long-term prospects.

ATCOR participated in the drilling of 70 wells in 1986 with a success ratio of 42% for exploration wells and 76% for development wells. Most of these wells (49) involved the completion of the previous year's drilling program and continued momentum in the development of previously discovered oil. Thirteen gross wells (4.9 net) were drilled during the fourth quarter of the year, the first full drilling season for ATCOR's new strategy. Four of these wells were new pool wildcats in which ATCOR had an average working interest of 83%. One of them, located southwest of Edmonton in the Crystal area, resulted in a significant discovery of wet gas. Two successful step-out wells and one marginal well have since been drilled; a fourth is planned. Production facilities are scheduled to be built in the summer of 1987 and the gas is expected to come on stream in early 1988.


Reserves
(gross before royalties)
(proven and probable)
1800
1500
1200
900
600
300
82 83 84 85 86
Oil (10^3m^3)
Gas (10^6m^3)
Production
(gross before royalties)
300
250
200
150
100
50
82 83 84 85 86
Oil (m^3/day)
Gas (10^3m^3/day)
Natural Gas
Marketing Sales
(petajoules)
125
100
75
50
25
82 83 84 85 86
Gas Processing
(m^3/day)
800
600
400
200
82 83 84 85 86
Ethane production
LPG production
Capital Expenditures
and Cash Provided
from Operations
(millions of dollars)
30
25
20
15
10
5
82 83 84 85 86
Capital expenditures
Cash provided from operations
296
RAM
ATCO

Gross production of crude oil averaged 201 cubic metres per day (161 cubic metres per day net), down slightly from the previous year. Natural gas production averaged 167,000 cubic metres per day (126,000 cubic metres per day net), a decrease of 20% from the previous year.

ATCOR revised downwards its reserve estimates by approximately 500,000 barrels of oil, primarily in the Maidstone area of Saskatchewan, as a result of the drop in oil prices which rendered recovery unprofitable. The write-down of oil reserves was offset by concentration on the search for natural gas, which resulted in a net increase of proven and probable gas reserves at the end of the year.

The total working interest in lands held, excluding split rights, increased by 9% to 104,748 hectares. The increase was due primarily to a 13% increase in land holdings in Alberta.

Crude Oil and Natural Gas Reserves

	Gross Before Royalties		
	Proven	Probable	Total
Crude Oil and Natural Gas Liquids (10^3m^3)			
1986	406	301	707
1985	455	402	857
Natural Gas (10^6m^3)			
1986	1,249	313	1,562
1985	1,090	336	1,426

Petroleum and Natural Gas Rights

	Hectares	
	Gross	Net
Alberta	267,845	97,714
Saskatchewan	11,294	5,335
British Columbia	3,100	598
Manitoba	3,415	1,101
	285,654	104,748
Petroleum Rights Only (Alberta)	289,853	150,782
Total 1986	575,507	255,530
Total 1985	622,749	265,511

Gas Processing

A major expansion at the Edmonton ethane extraction plant, completed in 1985, permitted the processing of additional volumes of gas associated with 2 large custom processing contracts. The expansion contributed to a 53% increase in processing fees during the year and helped to offset the impact of a sharp decline in LPG prices.

Plans for the construction of 2 natural gas liquids recovery plants in the Carbon and Joffre areas of Alberta were cancelled due to uncertain market conditions for LPGs. ATCOR continues to seek profitable processing and transportation opportunities through the enhancement of existing facilities as well as the development of new projects.

Gas Marketing

Gas marketing operations continued to grow in 1986. In addition to selling gas to its traditional markets within Alberta, ATCOR was successful in exporting gas to both eastern Canada and the United States. ATCOR sold 103 petajoules of natural gas during the year, including intercompany sales. The total number of customer contracts increased to 30 from 23 in the prior year. Gas was supplied by 109 producing companies under approximately 175 separate contracts.

Deregulation of gas pricing in Canada and the United States, as well as efforts by government and regulatory agencies across North America to open access to gas markets and transportation, will provide ATCOR with the opportunity to expand into markets outside of Alberta. In anticipation of ATCOR's growing involvement in the United States, a U.S. company was incorporated in the summer of 1986 under the name CU Marketing Inc.

During the past year, ATCOR sold 2.5 petajoules of natural gas to customers outside of Alberta. Included in this amount were sales under a long-term contract to a major refiner for its Sarnia, Ontario refinery.

In July 1986, ATCOR, in conjunction with 3 other Canadian suppliers, entered into an agreement with Alberta Northeast Gas Limited, a consortium of 19 distribution companies in the northeastern United States, to supply 150 petajoules of natural gas annually for 15 years, commencing in 1988. ATCOR's share of the contract is 13 petajoules per year. A joint application to the National Energy Board to export the gas was the subject of a hearing in early 1987. A decision is expected later in the year. ATCOR has either entered into letters of intent or is in advanced stages of negotiations with various other U.S. buyers for the sale of gas. All are subject to the availability of inter-state transportation capacity.

AT&S

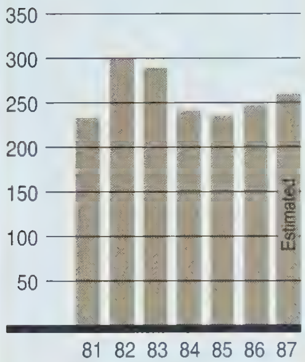
AT&S Exploration Ltd., a joint exploration company in which ATCOR holds a 30% interest, completed its planned frontier exploration program at the end of 1986. The highlight of the 1986 effort was at Amauligak in the Beaufort Sea where a 3-well delineation program confirmed the presence of an estimated 800 million gross barrels of oil reserves.

The Amauligak discovery is particularly significant for it represents a world-class discovery. Its development could lead to the delineation of and the production from earlier discoveries in the Mackenzie Delta-Beaufort Sea area (in which AT&S holds interests) and the establishment of a whole new oil and gas exploration and producing region in Canada. Development of Amauligak and the construction of a pipeline from the Mackenzie Delta to Alberta would together represent a multi-billion dollar megaproject with many associated investment opportunities and economic benefits to the North, to Alberta and to the Company.

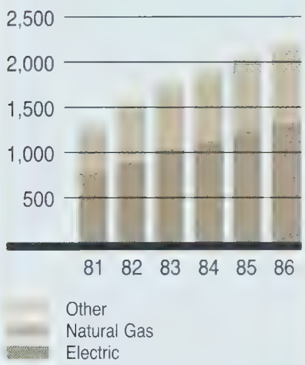
Through farm-in agreements, AT&S increased its participation in the Amauligak field from 3.00% to 10.16%, while ATCOR earned 3.04% directly to hold a 6.09% interest in the field. Plans for further delineation in 1987 have been announced by Gulf Canada Resources, the operator. If approved, it could lead to seasonal production by the summer of 1988 and full production by the mid-1990's.

FINANCIAL REVIEW

Capital Expenditures
(millions of dollars)

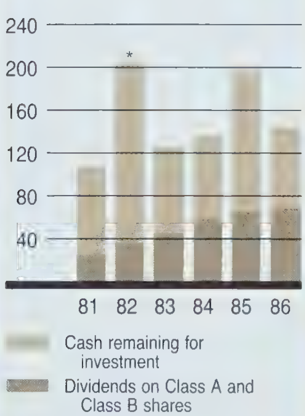


Property, Plant and Equipment — Net by Type of Business
(millions of dollars)



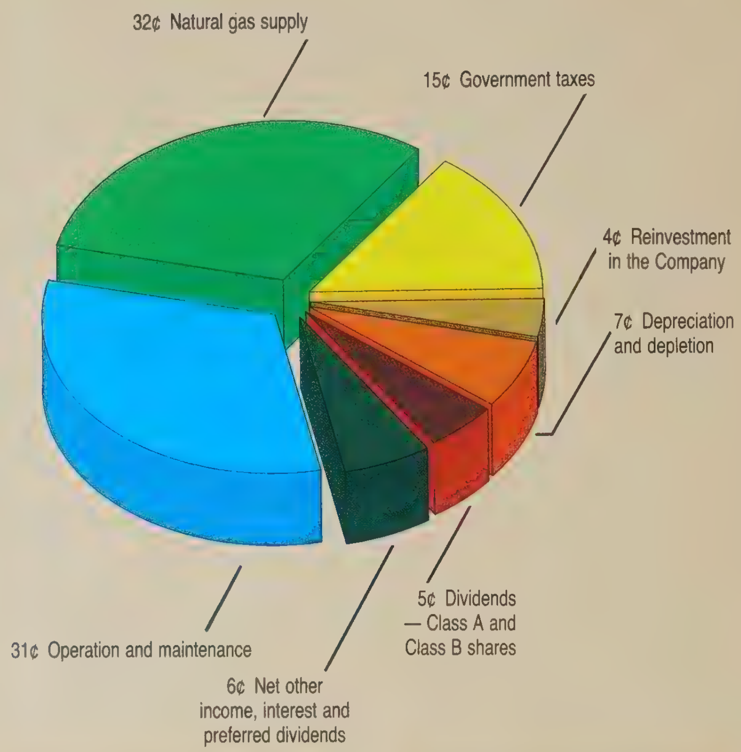
Annual Growth Rate Total 11.1%
Electric 12.0%
Gas 10.9%
Other 1.4%

Cash Provided from Operations
(millions of dollars)

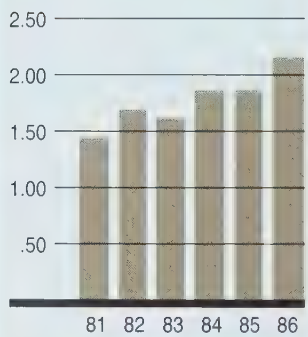


* Results include a short-term deferral of income tax payments on the change to the normalized — all taxes paid method of accounting for income taxes.

WHERE THE REVENUE DOLLAR WAS SPENT

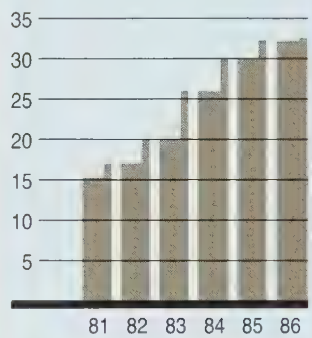


Earnings per Class A and Class B Share
(dollars)



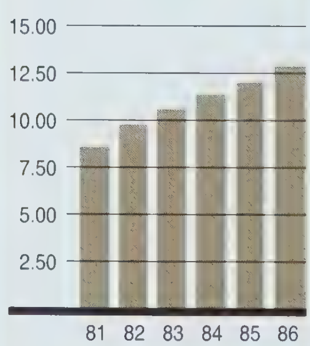
Annual Growth Rate 8.4%

Dividends per Class A and Class B Share
(quarterly rate in cents)



Annual Growth Rate 15.4%

Equity per Class A and Class B Share
(dollars)



Annual Growth Rate 8.5%

Earnings attributable to Class A and Class B shares for 1986 were $116.9 million ($2.16 per share) compared to $101.4 million ($1.87 per share) in the previous year. The 1985 results have been restated to conform with the new Guideline issued by The Canadian Institute of Chartered Accountants (CICA) on accounting for petroleum and natural gas assets under the full-cost method. Earnings for 1985 had previously been reported at $111.9 million ($2.07 per share).

Consolidated revenues were $1.245 billion in 1986 compared to $1.326 billion in 1985. Natural gas revenues declined to $737.0 million from $854.1 million; electric power revenues rose to $375.2 million from $324.0 million; and non-utility energy revenues declined to $130.8 million from $147.2 million. Major operating factors affecting earnings and revenues are discussed in the appropriate operations sections of this report.

Earnings per Class A and Class B Share

	1986	1985	Change
	$	$	$
Electric	**1.09**	1.12	(.03)
Natural Gas	**.80**	.97	(.17)
Non-Utility — Energy	**.10**	(.30)	.40
— Other	**.17**	.08	.09
	2.16	1.87	.29

During the year, approximately 5.5 million warrants to purchase TransAlta shares from the Company were exercised, producing an after-tax gain of $10.8 million. The proceeds are invested in marketable securities, which produced earnings from interest and dividends of $4.3 million after tax in 1986.

With the adoption of the new CICA Guideline on full-cost accounting by ATCOR Ltd., CU's major non-utility subsidiary, the previously reported 1985 write-down was increased by $10.5 million after tax. With markets for hydrocarbon products remaining depressed in 1986, a further write-down of $3.6 million after tax was required to report the value of oil and gas properties at their recoverable amount for accounting purposes.

A final decision from the Alberta Public Utilities Board on an application to set rates for 1984 and 1985 was received early in 1987 by Northwestern Utilities Limited. Additional earnings will be recorded in 1987 to reflect both the rate decision and other adjustments ordered by the Public Utilities Board. The decision further required Northwestern Utilities Limited to submit information on its results for 1986 to determine any necessary additional revenues or refunds required for that year. Alberta Power Limited received an interim rate increase, effective October 1986, and with the completion of the rate hearings in February 1987 it expects a final decision in the near future.

Natural gas market deregulation has produced changes in the environment in which the Company functions. The impact of deregulation is summarized in the natural gas and non-utility operations sections of this report.

At the conclusion of 1986, there were 28,717,976 Class A non-voting and 25,498,598 Class B common shares outstanding for a total of 54,216,574, an increase of 5,000 shares from December 31, 1985. The Class A shares are distributed among 9,781 shareholders of whom 9,723 are Canadian residents. The Class B shares are held by 2,298 shareholders of whom 2,265 are Canadian residents. The total shares held by non-residents represents less than 1% of the total shares outstanding. During the year, 880,076 Class B shares were exchanged for an equal number of Class A shares. A more detailed explanation of the rights and privileges accorded these 2 classes of shares is contained in the notes to the consolidated financial statements. The Company's shares are listed on the Toronto, Montreal and Alberta stock exchanges.

In 1986, the Company's quarterly dividend rate was 32¢ per share in each of the first 3 quarters and was increased to 32½¢ in the fourth quarter. The annual dividend of $1.285 in 1986 represented 59.6% of the $2.16 earnings per share.

Capital expenditures in 1986 were $248.1 million. The Company's net investment in property, plant and equipment rose $158.4 million to $2.227 billion.

Capital Expenditures

	1986	1987 Estimate
	($ Millions)	
Electric	**156.2**	147.6
Natural Gas	**68.0**	82.2
Non-Utility		
Energy	**23.7**	26.3
Other	**.2**	4.7
	248.1	260.8

Long-term external financings in 1986 totalled $330 million. These financings included the issue of $60 million Series L Preferred Shares at a rate of 7.70% and $80 million Series M Preferred Shares at a rate of 7.08%. The proceeds from these issues were applied to redeem the 10.12% Series E Preferred Shares and the 14.00% Series F Preferred Shares respectively.

The Company also issued $100 million of 9.85% debentures and $90 million of 10.25% debentures in the Canadian market. Both issues have a 20-year maturity. Proceeds from these issues were applied to the Company's ongoing capital expenditure program.

The projected capital expenditure program for the next 5 years is currently forecast at $1.3 billion. This forecast is subject to change depending upon the level of economic activity in Alberta.

The Company's capitalization includes a $288.6 million Series H Preferred Share issue which was used to finance the investment in TransAlta Utilities Corporation. The TransAlta investment is regarded as being self-liquidating in nature, and the Company expects total divestiture to occur on or before November 1, 1987. Each Series H Preferred Share carried a detachable warrant, entitling the bearer to purchase one Class A common share of TransAlta, owned by CU, at a price of $22.25 per share, on or before November 1, 1987. The Company, at December 31, 1986, has received $148.1 million from the exercise of TransAlta warrants. The proceeds are temporarily invested in a portfolio of Government of Canada securities, corporate bonds and floating rate preferred shares. Investment of these proceeds will continue until November, 1987 at which time they may be applied to the redemption of the Series H Preferred Shares.

The Company maintains a high credit standing on its debt and preferred equity instruments. CU's credit rating, by 2 major Canadian rating agencies, is AA and A+ (High) on debenture instruments, and Pfd-1 and P1 on the preferred shares.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information relating to the Company contained in this annual report have been prepared by management, which is responsible for the integrity and objectivity of this information. The financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles as applied to regulated utilities and conform in all material respects with International Accounting Standards. Where management makes a choice from acceptable alternatives it uses methods which it believes are prudent. These consolidated financial statements necessarily include some amounts that are based on informed judgements and best estimates of management.

Management depends upon a system of internal accounting controls to meet its responsibility for reliable and accurate reporting which includes periodic review by the internal audit function. Management modifies and improves its system of internal accounting controls in response to changes in business conditions.

Price Waterhouse, the Company's independent auditors, are engaged to express a professional opinion on the consolidated financial statements. The examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow the auditors to report on the fairness of the consolidated financial statements prepared by management.

Under provisions of the Canada Business Corporations Act, the Board of Directors appoints certain of its members to serve on the Audit Committee. The Board of Directors, through this Committee comprised of 5 non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

C. S. RICHARDSON
Deputy Chairman of the Board
and Chief Financial Officer

H. N. BOTTOMLEY
Vice President,
Finance and Administration

AUDITORS' REPORT

To the Shareholders of Canadian Utilities Limited:

We have examined the consolidated balance sheet of Canadian Utilities Limited as at December 31, 1986 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for its non-regulated petroleum and natural gas properties as explained in Note 7 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

Edmonton, Canada
January 30, 1987

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Note	1986	1985
		Year ended December 31	
		(Thousands)	
Revenues		**$1,244,802**	$1,325,936
Operating Expenses			
Natural gas supply	1	**395,933**	479,273
Operation and maintenance		**384,484**	376,971
Taxes — other than income	2	**67,701**	98,405
Taxes — income	3	**121,864**	105,380
Depreciation and depletion	7	**81,707**	96,601
		1,051,689	1,156,630
		193,113	169,306
Allowance for Funds Used During Construction		**34,629**	46,926
Gain on Disposition of Shares	6	**15,460**	3,631
Other Income	4	**9,769**	5,229
		252,971	225,092
Interest Expense		**83,570**	75,849
Dividends on Preferred Shares	12	**52,457**	47,834
		136,027	123,683
Earnings Attributable to Class A and Class B Shares		**116,944**	101,409
Retained Earnings at Beginning of Year — as restated	7	**320,745**	285,474
		437,689	386,883
Dividends on Class A and Class B Shares	13	**69,663**	66,138
Retained Earnings at End of Year		**$ 368,026**	$ 320,745
Earnings per Class A and Class B Share		**$ 2.16**	$ 1.87

CONSOLIDATED BALANCE SHEET

	Note	December 31 1986	1985
		(Thousands)	
ASSETS			
Current Assets			
Cash and short-term investments		**$ 17,231**	$ 21,977
Accounts receivable	5	**106,882**	135,582
Materials and supplies		**28,162**	26,303
Natural gas stored		**27,226**	5,355
Prepaid expenses		**4,193**	2,890
		183,694	192,107
Investment in Securities	6	**148,058**	
Investment in TransAlta Utilities Corporation	6	**124,158**	226,981
Property, Plant and Equipment	7	**2,227,279**	2,068,893
Deferred Expenses	8	**59,804**	49,925
		$2,742,993	$2,537,906
LIABILITIES AND CAPITALIZATION			
Current Liabilities			
Due to bank		**$ 22,195**	$ 22,504
Accounts payable and accrued liabilities		**149,266**	192,520
Income and other taxes		**25,169**	20,333
Dividends payable		**9,913**	12,221
Long-term debt — current maturities	11	**55,094**	19,269
		261,637	266,847
Deferred Credits			
Contributions for extensions to plant		**208,388**	190,071
Deferred income taxes		**18,447**	14,943
Other	9	**41,725**	40,961
		268,560	245,975
Capitalization			
Long-term debt	11	**711,133**	581,783
Preferred shares	12	**802,927**	791,930
Class A and Class B shareholders' equity	13	**698,736**	651,371
		2,212,796	2,025,084
		$2,742,993	$2,537,906

APPROVED BY THE BOARD:

J. D. Wood, Director

D. R. B. McArthur, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1986	1985
	(Thousands)	
CASH PROVIDED FROM OPERATIONS		
Earnings attributable to Class A and Class B shares	**$116,944**	$101,409
Depreciation and depletion	**81,707**	96,601
Gain on disposition of shares	**(15,460)**	(3,631)
Other	**12,647**	4,804
Allowance for funds used during construction — shareholders' equity	**(13,504)**	(19,230)
	182,334	179,953
Decrease (increase) in working capital	**(37,059)**	18,699
	145,275	198,652
Dividends on Class A and Class B Shares	**69,663**	66,138
	75,612	132,514
FINANCING		
Issue of long-term debt	**190,000**	13,154
Reduction in long-term debt	**(24,825)**	(26,520)
Contributions for extensions to plant	**25,215**	26,879
Issue of preferred shares	**140,000**	125,000
Preferred shares redeemed	**(128,055)**	(82,972)
Other	**(12,238)**	(7,368)
	190,097	48,173
Total Cash for Investment	**265,709**	180,687
INVESTMENT		
Additions to property, plant and equipment	**248,142**	235,618
Increase in deferred expenses for natural gas exploration — net	**5,439**	3,969
Allowance for funds used during construction — shareholders' equity	**(13,504)**	(19,230)
	240,077	220,357
Investment in TransAlta Utilities Corporation		
— Net carrying cost	**4,034**	5,130
— Proceeds on disposition of shares	**(122,317)**	(25,928)
Investment in securities	**148,058**	
Disposition of property, plant and equipment	**(2,284)**	(22,294)
Increase in other deferred expenses	**2,578**	6,184
	270,146	183,449
Decrease in Cash	**$ 4,437**	$ 2,762

"Long-term debt — current maturities" and cash are excluded from working capital.
Cash is defined as "Cash and short-term investments" less "Due to bank."

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

December 31, 1986

Consolidated Financial Statements

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles and conform in all material respects with the International Accounting Standards adopted by the International Accounting Standards Committee.

The consolidated financial statements include the accounts of the Company, the utility subsidiaries, Alberta Power Limited (electric), Northwestern Utilities Limited and Canadian Western Natural Gas Company Limited (natural gas), and a non-utility subsidiary, CU Enterprises Inc. (formerly ATCOR Resources Limited).

Regulation

The utility subsidiaries are regulated primarily by the Public Utilities Board of Alberta (the "Board") and the Energy Resources Conservation Board of Alberta, which administer acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The Board may award interim rates, subject to final determination. Decisions made by these authorities or management which impact on utility accounting policies are reflected in the consolidated financial statements after the date of decision.

Revenue Recognition

Customers are billed on a cycle billing basis and revenues are recognized when billed. Significant additional revenues or refunds resulting from Board decisions are recorded in the period to which they relate. Other adjustments are recorded in the current period.

Natural Gas Supply

The Province of Alberta enacted the Natural Gas Rebates Act effective January 1, 1974 to shelter the majority of Alberta natural gas customers from the full impact of significant price increases for natural gas. Under the provisions of the Act, the natural gas subsidiaries incur a lower effective cost for natural gas in that they are reimbursed for the portion of the price paid to their suppliers which exceeds the support price.

Taxes — Income

Income taxes are provided by the utility subsidiaries, using the normalized - all taxes paid method approved by the Board. This method does not result in a deferral of income taxes as any timing differences between accounting earnings and taxable income are eliminated. The major portion of income taxes paid is refunded for rebate to customers under the Public Utilities Income Tax Transfer Act and the Utility Companies Income Tax Rebates Act.

Prior to adoption of this method, the utility subsidiaries provided for income taxes on the flow-through method which resulted in a deferral of income taxes. As the income tax component of rates is designed to recover only income taxes currently payable, no provision has been made in the consolidated financial statements for this deferral of income taxes. The customer in future years will bear an additional charge in the event of a reversal of these unbooked deferred income taxes. Significant reversals are not expected in the foreseeable future.

The Company and its non-utility subsidiary provide for deferred income taxes except where under the terms of a cost of service agreement the subsidiary is only allowed to recover income taxes currently payable in the revenues billed.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs for materials and supplies are determined on an average basis, whereas the cost of natural gas stored is determined on a first-in, first-out basis.

Property, Plant and Equipment

The utility subsidiaries include in the cost of additions an allowance for funds used during construction, at a rate approved by the Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized on the same basis as, and offset the depreciation charge of, the assets to which they relate.

On retirement of depreciable assets, the accumulated depreciation is charged with the cost of the retired unit less net salvage. Gains and losses on extraordinary retirements are recognized in earnings as extraordinary items.

Included in the natural gas subsidiaries' Property, Plant and Equipment are gas wells that have been drilled, tested and capped and remain unconnected to the utility system. The Board has directed that the costs of such wells, including an allowance for funds, be accounted for as plant held for future use. If, after a period of 5 years, these wells have not been added to the utility system, the costs are written off against funds received under The Natural Gas Pricing Agreement Act. If at a future date a gas well is placed in service or is required to be used, the amount written off will be reinstated in Property, Plant and Equipment.

The non-utility subsidiary follows the full-cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration for, and development of, petroleum and natural gas properties are capitalized in one cost centre. The capitalized cost of petroleum and natural gas properties is limited to an amount equivalent to the estimated net amount to be received with respect to the production of proved reserves plus the net cost of unproved properties less future general and administrative expenses, financing costs and income taxes.

Depreciation is provided on assets on a straight-line basis over their estimated useful lives. The major assets are depreciated using rates approved by the Board varying from 1.5% to 6.4%. All resource properties are depleted on a unit of production basis.

Deferred Expenses

The natural gas subsidiaries include in gas exploration all costs, including an allowance for funds, related to the development of gas reserves. These costs are recorded net of income taxes. Costs related to a successful venture are capitalized as plant and equipment. The costs of an unsuccessful venture are charged against amounts received under The Natural Gas Pricing Agreement Act included in other deferred credits.

Expenses of issue of long-term debt are amortized over the weighted average life of the debt and expenses of issue of preferred shares are amortized over the expected life of the issue. Premiums and unamortized issue costs of redeemed long-term debt and preferred shares are amortized over the life of the issue funding the redemption.

Leases

The Board requires that application be made for the capitalization of leases in the determination of customer rates. Prior to such approval, leases that would otherwise be treated as capital leases are accounted for as operating leases.

Deferred Credits — Other

As Alberta gas producers, the natural gas subsidiaries receive a pro rata share of funds available under The Natural Gas Pricing Agreement Act. The amounts received, net of royalties and income taxes, are deferred and, subject to Board approval, are reduced by the costs of unsuccessful natural gas exploration.

Preferred Shares

The preferred dividends are recorded in the same manner as interest expense in the consolidated statement of earnings and retained earnings.

The capitalization segment of the consolidated balance sheet and the consolidated statement of earnings and retained earnings reflect the financing and cost of capital policies of the Company as a regulated utility in Alberta.

Alberta Electric Energy Marketing Agency

The Province of Alberta has established the Alberta Electric Energy Marketing Agency to reduce rate differentials for Alberta consumers by the purchase and resale of energy. The Agency buys energy from the utilities at each utility's cost of generation and transmission and resells identical quantities of energy at an average cost. The difference between the Company's selling and buying prices is adjusted in the customer rates.

December 31, 1986

1. Natural gas supply

The natural gas supply expense is net of a rebate from the Province of Alberta of $77,751,000 (1985 — $109,397,000).

2. Taxes — other than income

	Year ended December 31	
	1986	1985
	(Thousands)	
Federal Canadian ownership taxes	**$**	$22,064
Federal petroleum and natural gas revenue taxes	**2,169**	5,984
	2,169	28,048
Franchise taxes	**51,687**	56,937
Property taxes	**13,477**	12,524
Provincial mineral taxes	**368**	896
	$67,701	$98,405

No Canadian ownership taxes and Federal petroleum and natural gas revenue taxes have been levied since June 1, 1985 and October 1, 1986 respectively.

3. Taxes — income

Under the normalized – all taxes paid method of accounting for income taxes the expected rate of income tax on accounting earnings would equal the statutory rate in the absence of permanent differences. The following table describes the permanent differences and their effect on the statutory rate:

	Year ended December 31	
	1986	1985
Statutory income tax rate	**48.8%**	47.9%
Allowance for funds used during construction	**(3.3)**	(5.5)
Crown royalties and other non-deductible Crown payments	**1.8**	3.7
Earned depletion and resource allowance	**(2.7)**	(3.7)
Gain on disposition of shares	**(1.0)**	(0.3)
Dividend income	**(0.7)**	(0.1)
Reassessments		(2.4)
Alberta Tax Credits	**(1.0)**	(0.8)
Other	**(0.1)**	2.6
Actual income tax rate	**41.8%**	41.4%

Taxes — income includes deferred income taxes of $3,662,000 (1985 — a drawdown of $2,189,000) provided for timing differences in the Company and its non-utility subsidiary.

A provision for certain deferred income taxes is not included in the consolidated financial statements. Unbooked deferred income taxes increased during the year by $101,000 (1985 — increase of $5,344,000) to an accumulated amount of $134,616,000.

4. Other income

	Year ended December 31	
	1986	1985
	(Thousands)	
Interest	**$5,057**	$2,972
Dividends	**4,190**	629
Gain on purchase of long-term debt	**84**	1,085
Other	**438**	543
	$9,769	$5,229

5. Accounts receivable

	December 31	
	1986	1985
	(Thousands)	
Customer accounts by segment — natural gas	**$ 50,747**	$ 66,892
— electric	**20,399**	20,616
— energy	**16,934**	19,757
Receivable from the Province of Alberta	**8,991**	12,947
Other receivables and deposits	**9,811**	15,370
	$106,882	$135,582

6. Investment in TransAlta Utilities Corporation

On August 3, 1982 the Company, ATCO Ltd. and TransAlta Utilities Corporation entered into an agreement providing for the divestiture of the interlocking equity ownership positions held by the Company and TransAlta Utilities Corporation. On December 1, 1982 warrants were issued to the holders of the Series H preferred shares entitling the bearer, for each warrant held, to purchase one Class A common share of TransAlta Utilities Corporation owned by the Company at a price of $22.25 per share on or before November 1, 1987. The investment in TransAlta Utilities Corporation was acquired at a price of $18.81 per share.

Effective January 1, 1985 the net carrying cost of the investment has been deferred and added to the cost of the investment. The market value of the TransAlta Utilities Corporation shares has increased such that, in management's opinion it is appropriate to defer this cost until the warrants are exercised and gains are realized. The carrying cost of the investment has increased by the following:

	December 31	
	1986	1985
	(Thousands)	
Expense		
Preferred dividends	**$19,640**	$25,779
Other	**1,506**	2,230
	21,146	28,009
Income		
Dividends	**15,791**	20,519
Interest	**1,321**	2,360
	17,112	22,879
	$ 4,034	$ 5,130

During the year, 5,497,384 (1985 — 1,152,316) warrants were exercised for an after-tax gain of $10,845,000 (1985 — $2,664,000), leaving 6,319,863 outstanding. The proceeds are invested in securities which are stated at cost (market value — $147,880,000) and are available for the redemption or retraction of the Series H Preferred Shares. The interest and dividends received from these securities are recorded in other income.

7. Property, plant and equipment

	December 31			
	1986		1985	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
	(Thousands)		(Thousands)	
Natural gas plant and equipment	**$1,041,965**	**$247,948**	$ 978,016	$221,354
Electric plant and equipment	**1,493,248**	**311,325**	1,092,623	264,661
Construction work in progress	**151,251**		400,496	
Non-regulated petroleum and natural gas properties	**124,621**	**66,242**	102,127	57,741
Other plant and equipment	**37,380**	**13,161**	35,921	10,909
Land	**17,490**		14,375	
	$2,865,955	**$638,676**	$2,623,558	$554,665
Net property, plant and equipment	**$2,227,279**		$2,068,893	

The Company's electric subsidiary has a 50% joint ownership in the construction and operation of Sheerness Generating Stations 1 and 2. Unit 1 was commissioned on January 1, 1986. Unit 2, included in construction work in progress in the amount of $93,367,000 (1985 — $80,275,000), is presently approved by the Energy Resources Conservation Board for commissioning in 1990.

Plant held for future use in the amount of $17,714,000 (1985 — $24,213,000) is included in natural gas plant and equipment.

The Company has adopted, on a retroactive basis, a method of accounting for its non-regulated petroleum and natural gas properties which conforms with the Guideline issued by The Canadian Institute of Chartered Accountants. The Guideline prescribes a ceiling test calculation which requires current prices for all reserves.

Application of the Guideline results in a 1985 write-down of $31,676,000 ($23,435,000 after income taxes), an increase over the $17,725,000 ($12,895,000 after income taxes) write-down previously reported. Depreciation and depletion in 1985 increased by $13,951,000 and income taxes decreased by $3,411,000 for a reduction in 1985 earnings of $10,540,000. For 1986 the write-down is $5,089,000 ($3,585,000 after income taxes) based on an average 1986 oil price of $15.50 per barrel, an average natural gas price of $1.60 per mcf and current royalty rates and production costs. The 1985 write-down was based on January 31, 1986 oil prices of $21.00 per barrel and an average natural gas price of approximately $1.60 per mcf and the then current royalty rates and production costs. If 1986 and 1985 year-end prices for oil and natural gas had been used no additional write-downs would have been required.

The previous policy of the Company had been to use a different ceiling test calculation. The retroactive application of the change increased current year's earnings by approximately $11,000,000 ($8,300,000 after income taxes).

8. Deferred expenses

	December 31	
	1986	1985
	(Thousands)	
Gas exploration — net	**$29,948**	$24,508
Unamortized debt and preferred share issue expenses	**23,564**	19,082
Other	**6,292**	6,335
	$59,804	$49,925

9. Deferred credits — other

	December 31	
	1986	1985
	(Thousands)	
Funds received under The Natural Gas Pricing Agreement Act — net	**$34,433**	$34,224
Other	**7,292**	6,737
	$41,725	$40,961

During the year, $Nil (1985 —$1,944,000) of unsuccessful gas exploration costs, net of related income taxes, were charged against funds received under The Natural Gas Pricing Agreement Act. No funds have been received since November 1, 1986 as a result of natural gas deregulation.

10. Bank line of credit

Under a bank loan agreement, which provides a line of credit of up to $75,000,000 to March 14, 1988, the Company issues commercial paper and assumes bank loans. Under the agreement the Company maintains an unused bank line of credit of not less than 50% of the commercial paper outstanding. At December 31, 1986 and 1985 there were no loans outstanding under this agreement.

11. Long-term debt

Long-term debt outstanding, net of current maturities, is as follows:

	December 31	
	1986	1985
	(Thousands)	
Canadian Utilities Limited		
Debentures — sinking fund		
8⅜% due March 1992	**$ 16,991**	$ 18,199
8¾% due July 1993	**4,725**	6,025
9⅛% due March 1994	**6,180**	7,062
11½% due October 1994	**8,900**	10,150
11¼% due February 1996	**35,000**	36,100
9⅞% due September 2002	**16,900**	17,900
10.40% due July 1999	**63,750**	66,636
12% due July 2000	**89,000**	95,000
17% due December 1996	**35,000**	37,500
17.5% due March 1997	**48,000**	51,000
Debentures — other		
17% due August 1987		35,000
13.10% due June 1994	**100,000**	100,000
9.85% due October 2006	**100,000**	
10.25% due December 2006	**90,000**	
	614,446	480,572
Capitalized lease obligation due to 1996	**18,399**	19,362
Finance contracts at 9.118% due to 1993	**12,495**	13,775
Note payable due December 1988	**11,725**	12,500
Alberta Power Limited		
First mortgage sinking fund bonds 5⅝% to 6½% due to 1992	**20,000**	20,000
Sinking fund debentures 7¼% to 9⅝% due to 1991	**13,125**	13,776
Northwestern Utilities Limited		
First mortgage sinking fund bonds 5¾% to 9¾% due to 1994	**10,643**	10,823
Canadian Western Natural Gas Company Limited		
First mortgage sinking fund bonds 5⅝% to 7% due to 1992	**5,925**	6,225
Sinking fund debentures 9¾% due 1990	**4,375**	4,750
	$711,133	$581,783

During the year, the Company issued for cash $100,000,000 of 9.85% Debentures 1986 Series and $90,000,000 of 10.25% Debentures 1986 Second Series.

The $11,725,000 note payable is owing to Rural Electrification Associations and bears interest determined at June 30 and December 31 of each year at the greater of a bank's prime rate or its 5-year term deposit rate.

Annual repayment of maturing issues, capitalized lease and finance contract requirements and sinking fund requirements for each of the following years are:

	Maturing Issues	Capitalized Lease and Finance Contracts	Sinking Fund Requirements	Sinking Fund Purchased in Advance	Total
		(Thousands)			
1987	$35,000	$2,244	$24,417	$(6,567)	$55,094
1988	23,665	3,376	23,352	(1,680)	48,713
1989	2,125	3,918	23,227	(55)	29,215
1990	15,625	4,005	22,852		42,482
1991	4,500	2,818	22,477		29,795

The $100,000,000, 13.10% Debentures 1984 Series, due June 1, 1994, grants the holder of the debentures the option of requiring the Company to redeem all or any of the holder's debentures on June 1, 1989 at a price equal to the principal amount plus accrued and unpaid interest to June 1, 1989.

The Company leases, with an option to purchase, a dragline costing $24,818,000 which is included in electric plant and equipment. The future minimum lease payments in aggregate are $29,540,000 of which $2,421,000 is payable in each of the 5 succeeding years. Included in these future minimum rentals is $10,177,000 of imputed interest at the rate of 7.62%.

12. Preferred shares

	December 31		Dividends Year ended December 31	
	1986	1985	**1986**	1985
	(Thousands)		(Thousands)	
Canadian Utilities Limited	**$762,919**	$751,922	**$69,924**	$71,382
Northwestern Utilities Limited	**10,500**	10,500	**420**	420
Canadian Western Natural Gas Company Limited	**9,508**	9,508	**440**	440
CU Enterprises Inc. (formerly ATCOR Resources Limited)	**20,000**	20,000	**1,313**	1,371
	40,008	40,008	**2,173**	2,231
	$802,927	$791,930	**72,097**	73,613
Less dividends capitalized (Note 6)			**19,640**	25,779
			$52,457	$47,834

Canadian Utilities Limited

Authorized:

40,000, 5% Cumulative Redeemable Preferred Shares.

150,000 Series Preferred Shares, issuable in series, which have been designated as Cumulative Redeemable Preferred Shares and rank pari passu with the 5% Cumulative Redeemable Preferred Shares.

An unlimited number of Series Second Preferred Shares, issuable in series, which have been designated as Cumulative Redeemable Second Preferred Shares.

Issued:

	December 31			
	1986		1985	
	Shares	**Amount**	Shares	Amount
		(Thousands)		(Thousands)
Cumulative Redeemable Preferred Shares				
5%	**40,000**	**$ 4,000**	40,000	$ 4,000
Cumulative Redeemable Preferred Shares				
4¼% Series	**15,000**	**1,500**	15,000	1,500
6% Series	**50,000**	**5,000**	50,000	5,000
Cumulative Redeemable Second Preferred Shares				
Non-retractable				
7.30% Series C	**921,580**	**23,040**	957,580	23,940
		33,540		34,440
Retractable				
10.12% Series E			2,124,100	53,103
14.00% Series F			2,998,100	74,952
14.50% Series G	**2,000,000**	**50,000**	2,000,000	50,000
9.00% Series H	**12,969,750**	**288,577**	12,971,900	288,625
8.74% Series I	**3,952,100**	**98,802**	3,952,100	98,802
8.375% Series J	**1,080,000**	**27,000**	1,080,000	27,000
7.80% Series K	**5,000,000**	**125,000**	5,000,000	125,000
7.70% Series L	**2,400,000**	**60,000**		
7.08% Series M	**3,200,000**	**80,000**		
		729,379		717,482
		$762,919		$751,922

During 1986, the Company redeemed the 10.12% and 14.00% Cumulative Redeemable Second Preferred Shares Series E and Series F. The redemption prices were $26 per share plus accrued dividends. The Company issued for cash $60,000,000 and $80,000,000 of Cumulative Redeemable Second Preferred Shares 7.70% Series L and 7.08% Series M, respectively.

Also during the year, 2,150 Cumulative Redeemable Second Preferred Shares Series H were presented with warrants which entitled the holder to purchase Class A common shares of TransAlta Utilities Corporation and were subsequently cancelled by the Company.

Stated value, redemption premiums and dividends:

	Stated Value	1987 Redemption Premium	Dividends Year ended December 31 1986	1985
			(Thousands)	
Cumulative Redeemable Preferred Shares				
5%	$100	4%	**$ 200**	$ 200
Cumulative Redeemable Preferred Shares				
4¼% Series	$100	2½%	**64**	64
6% Series	$100	1%	**300**	300
Cumulative Redeemable Second Preferred Shares				
Non-retractable				
9.24% Series B	$ 25			3,123
7.30% Series C	$ 25	0.8%	**1,712**	1,769
			2,276	5,456
Retractable				
10.24% Series D	$ 25			3,892
10.12% Series E	$ 25		**917**	5,374
14.00% Series F	$ 25		**7,852**	10,493
14.50% Series G	$ 25	4%	**7,250**	7,250
9.00% Series H	$ 22.25		**25,962**	25,976
8.74% Series I	$ 25		**8,618**	8,618
8.375% Series J	$ 25		**2,266**	2,266
7.80% Series K	$ 25		**9,734**	2,057
7.70% Series L	$ 25		**3,631**	
7.08% Series M	$ 25		**1,418**	
			67,648	65,926
			$69,924	$71,382

Redemption privileges

The preferred shares of the Company are redeemable subject to premiums listed above plus accrued dividends. The Cumulative Redeemable Preferred Shares and the non-retractable Cumulative Redeemable Second Preferred Shares are redeemable at the option of the Company at any time. The retractable Cumulative Redeemable Second Preferred Shares will be subject to redemption at the option of the Company commencing at the dates specified and with an initial premium as stated below:

		Redemption Premium
Series G	May 1, 1987	4%
Series H	November 1, 1987	nil
Series I	November 1, 1988	4%
Series J	January 31, 1992	nil
Series K	October 15, 1993	nil
Series L	June 1, 1991	6%
Series M	June 1, 1991	4%

Purchase obligations

The Company is required in each year to make all reasonable efforts to purchase for cancellation the number of shares of the Cumulative Redeemable Second Preferred Shares listed on the following page, at a price not exceeding $25 per share plus costs of purchase. If after all reasonable efforts the Company is unable to do so, the Company's obligation to purchase in such year is extinguished.

	1986 Share Purchase Obligations	Purchased in 1986 Shares	Amount
			(Thousands)
Series C	36,000	36,000	**$900**
Series G	80,000		
Series I	120,000		
Series K	100,000		
			$900

Retraction privileges

Certain series of the Cumulative Redeemable Second Preferred Shares have retraction privileges on specified dates at the option of the holder at the stated value plus accrued dividends. The series and retraction dates are shown below:

Series G	May 1, 1987
Series H	November 1, 1987
Series I	November 1, 1991
Series J	January 31, 1992
Series K	October 15, 1993
Series L	June 1, 1994
Series M	June 1, 1993

The Series H Cumulative Redeemable Second Preferred Shares can be redeemed at the option of the holder prior to November 1, 1987 if presented with a warrant to purchase a Class A common share of TransAlta Utilities Corporation.

Northwestern Utilities Limited

	December 31 1986	1985
	(Thousands)	
Authorized and issued:		
105,000, 4% Cumulative Redeemable Preferred Shares — $100; voting, non-participating, 1987 redemption premium — 3%	**$10,500**	$10,500

Canadian Western Natural Gas Company Limited

	December 31 1986	1985
	(Thousands)	
Authorized and issued:		
275,410, 4% Cumulative Redeemable Preferred Shares — $20; voting, non-participating, 1987 redemption premium — 3%	**$5,508**	$5,508
200,000, 5½% Cumulative Redeemable Preferred Shares — $20; voting, non-participating, 1987 redemption premium — 3%	**4,000**	4,000
	$9,508	$9,508

CU Enterprises Inc. (formerly ATCOR Resources Limited)

	December 31 1986	1985
	(Thousands)	
Authorized and issued:		
800,000 Floating Rate Cumulative Redeemable Preferred Shares — $25; guaranteed by the Company, dividend rate of one-half of bank prime rate plus 1¼%, 1987 redemption premium — nil, redemption of $2,000,000 per year required commencing in 1989	**$20,000**	$20,000

13. Class A and Class B shareholders' equity

	December 31		Dividends Year ended December 31	
	1986	1985	**1986**	1985
	(Thousands)		(Thousands)	
Class A non-voting shares	**$175,193**	$169,742	**$36,397**	$33,670
Class B common shares	**155,517**	160,884	**33,266**	32,468
Retained earnings	**368,026**	320,745		
	$698,736	$651,371	**$69,663**	$66,138

Class A and Class B shares

Authorized:

An unlimited number of Class A non-voting shares and Class B common shares without nominal or par value.

Issued:

	Year ended December 31, 1986			
	Class A non-voting		Class B common	
	Shares	**Amount**	Shares	**Amount**
		(Thousands)		(Thousands)
Beginning of year	27,832,900	**$169,742**	26,378,674	**$160,884**
Options exercised	5,000	**84**		
Share exchanges	880,076	**5,367**	(880,076)	**(5,367)**
End of year	28,717,976	**$175,193**	25,498,598	**$155,517**

The holders of the Class A non-voting shares and the Class B common shares are entitled to share equally, on a share for share basis, in all dividends declared by the Company on either of such classes of shares as well as the remaining property of the Company upon dissolution. The holders of the Class B common shares are entitled to vote and to exchange at any time each share held for one Class A non-voting share. The holders of the Class A non-voting shares are entitled to exchange, in limited circumstances, each share held for one Class B common share.

During 1985, options to purchase 555,000 Class A non-voting shares were granted to 10 officers of the Company and its subsidiaries. The Class A non-voting shares subject to the option may be purchased at the price of $16.75 per share on or before February 25, 1995. Options on 5,000 shares were exercised during the year. The effect of potential exercise of the remaining options would not materially dilute earnings per Class A and Class B shares.

Retained earnings

The bond and debenture indentures place certain limitations on the Company which include restrictions on the payment of dividends on Class A and Class B shares. Consolidated retained earnings in the amount of $147,224,000 was free from such restrictions.

14. Amounts held in trust

	December 31	
	1986	1985
	(Thousands)	
Rural Electrification Associations	**$13,761**	$15,918
Income tax rebates	**21,828**	14,298
Alberta Electric Energy Marketing Agency	**5,182**	1
	$40,771	$30,217

The balance remaining in the Alberta Electric Energy Marketing Agency trust account will be rebated to customers in 1987.

Amounts held in trust are not included in the consolidated financial statements.

15. Related party transactions

During 1986, the Company entered into transactions with ATCO Ltd., its principal shareholder, and certain subsidiaries of ATCO Ltd. These transactions are considered to be in the normal course of business and at fair market value.

Payments were made to ATCO Ltd. for the rental of premises of $12,065,000 (1985 — $11,676,000) and equipment purchases of $93,000 (1985 — $913,000). A subsidiary of ATCO Ltd. acted as a general contractor for construction of business premises and office leasehold improvements for which fees, including administration costs, amounted to $114,000 (1985 — $130,000). The Company was reimbursed by ATCO Ltd. and certain of its subsidiaries for the provision of security services in the amount of $576,000 (1985 — $532,000). Charges to ATCO Ltd. for rental of premises and recovery of costs of leasehold improvements were $160,000 (1985 — $163,000).

Certain subsidiaries of the Company participate in oil and natural gas joint ventures. When they act as operator they have, in some instances, contracted ATCO Ltd. subsidiaries for well drilling and servicing, equipment purchases and related services, the total amount being approximately $3,400,000 (1985 — $5,600,000). A portion of these expenditures is reimbursed by the other participants in the joint ventures.

Effective April 1, 1985 the non-utility subsidiary of the Company sold for $17,000,000 certain working interests in oil and gas reserves to an affiliated company, ATCO Drilling Ltd. The ownership of these reserves reverts to the subsidiary in the event that ATCO Drilling Ltd. receives from production sufficient income to return its investment plus a pre-determined rate of return on that investment.

16. Rate applications

Northwestern Utilities Limited has been operating on interim rates since October 1984. This subsidiary filed a rate application for 1984 and 1985 and did not file for 1986 but continued to apply the interim rates approved for 1985. A final decision for 1984 and 1985 was received early in 1987 awarding additional revenues of $2,941,000 which will be recorded in 1987. The Board also ordered that a schedule of revenue surplus or deficiency is to be filed for 1986 to determine appropriate additional revenues or refunds.

Canadian Western Natural Gas Company Limited has been operating under final rates approved in 1986.

Alberta Power Limited is presently awaiting a decision on its 1986 rate application and has been operating on interim rates since October 1986.

17. Employee pension plan

The Company and its subsidiaries have a defined benefit pension plan covering substantially all employees. Employees participate through contributions to the plan which provides for pensions based on length of service and final average earnings. During the year, the Company made no changes to the benefits offered by the plan, which uses the accrued benefit cost method with projection of employee compensation levels to determine the costs of the reporting period. Pension costs for the year amounted to $12,830,000 (1985 — $12,579,000). Based on the most recent actuarial evaluation of December 31, 1983 the Company has been amortizing a plan deficit, now calculated to amount to $26,138,000.

The Company is in the process of obtaining an actuarial evaluation as at December 31, 1986 which will incorporate improvements to the plan resulting from changes in pension benefits legislation and revisions to the actuarial assumptions. The significant appreciation in the value of the plan assets since the last evaluation is expected to eliminate the existing plan deficit and cover the revised actuarial liability which results from these changes.

18. Commitments and contingencies

The electric subsidiary has a 50% joint ownership in the Sheerness Generating Station which is under construction. The project presently is forecast to cost the Company $568,000,000 of which approximately $158,000,000 is yet to be expended on Unit 2.

Minimum non-capitalized lease payments, which extend over periods not exceeding 17 years, are $13,158,000, $12,831,000, $12,590,000, $12,358,000 and $11,200,000 for the years 1987-1991, respectively.

The utility subsidiaries purchase natural gas and coal from approximately 324 producers under approximately 448 purchase contracts. Substantially all of these contracts have provisions requiring payment when the company is unable to nominate specified minimum annual quantities for delivery. In prior years, the available market has exceeded the minimum contract supply quantities and no "take-or-pay" payments were required.

The natural gas subsidiaries are currently involved in negotiations with their producers to determine the price to be paid for natural gas deliveries, made under existing contracts, subsequent to November 1, 1986. Adequate provision has been made for the cost of natural gas delivered under these contracts.

19. Segmented information

Operating segments	Year	Electric Utility Operations	Natural Gas Utility Operations	Non-Utility Energy Operations	Consolidated*
			(Thousands)		
Revenues					
Outside customers	**1986**	**$ 375,184**	**$737,058**	**$130,790**	**$1,243,032**
	1985	$ 323,954	$854,099	$147,237	$1,325,290
Inter-segment		**80**	**12,258**	**39,640**	
		115	17,499	20,642	
Corporate					**1,770**
					646
		375,264	**749,316**	**170,430**	**1,244,802**
		324,069	871,598	167,879	1,325,936
Expenses					
Operating		**161,998**	**584,488**	**152,006**	**845,793**
		150,002	698,410	144,043	953,532
Taxes — income		**59,465**	**53,914**	**2,046**	**115,425**
		46,165	57,383	(462)	103,086
Depreciation and depletion		**42,876**	**28,075**	**11,813**	**81,303**
		30,475	25,559	40,524	96,394
Corporate					**9,168**
					3,618
		264,339	**666,477**	**165,865**	**1,051,689**
		226,642	781,352	184,105	1,156,630
Segment operating income	**1986**	**$ 110,925**	**$ 82,839**	**$ 4,565**	**$ 193,113**
	1985	$ 97,427	$ 90,246	$ (16,226)	$ 169,306
Total assets	**1986**	**$1,403,052**	**$939,248**	**$123,169**	**$2,742,993**
	1985	$1,289,477	$896,848	$111,511	$2,537,906
Capital expenditures	**1986**	**$ 156,154**	**$ 68,032**	**$ 23,735**	**$ 248,142**
	1985	$ 141,975	$ 69,022	$ 24,385	$ 235,618

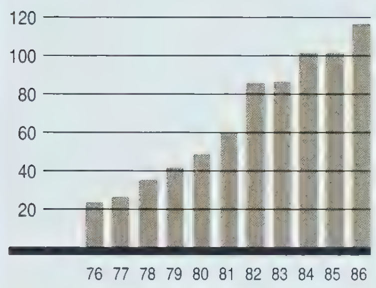
* Inter-segment transactions have been eliminated in the consolidated column. Consolidated total assets and capital expenditures include the other assets and expenditures of the Company. The principal other assets included in the consolidated total are the investments in TransAlta Utilities Corporation and securities.

20. Financial statements

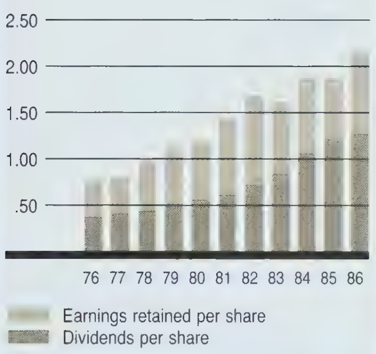
Certain of the 1985 figures have been reclassified to conform with the consolidated financial statement presentation adopted in 1986.

CONSOLIDATED TEN-YEAR FINANCIAL SUMMARY

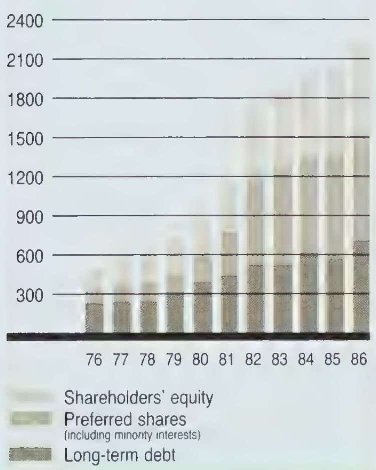
Earnings Attributable to Class A and Class B Shares
(before extraordinary items)
(millions of dollars)



Earnings per Class A and Class B Share
(before extraordinary items)
(dollars)



Capitalization
(millions of dollars)



(Dollars in millions, except as indicated)

	1986
Operating Revenues	
Natural gas	737.0
Electric	375.2
Non-utility	
Energy	130.8
Other	1.8
	1,244.8
Operating Expenses	
Natural gas supply	395.9
Operation and maintenance	384.5
Taxes — other than income	67.7
Taxes — income	121.9
Depreciation and depletion	81.7
	1,051.7
	193.1
Allowance for Funds Used During Construction	34.6
Other Income	25.2
	252.9
Interest Expense	83.6
Dividends on Preferred Shares	52.4
Earnings before Extraordinary Items	116.9
Extraordinary Items — Non-Recurring Gain (Loss)	
Earnings attributable to Class A and Class B Shares	116.9
Contribution by Segment#	
Electric	59.1
Natural gas	43.1
Non-utility	
Energy	5.6
Other	9.1
	116.9
Shares Outstanding* (thousands)	
At end of year	54,217
Average for year	54,214
Earnings per Share*# (dollars)	2.16
Total Annual Dividends*	69.7
Dividends per Share* (dollars)	1.285
Payout Ratio (dividends ÷ earnings attributable)	59.6%
Equity per Share* (dollars)	12.89
Return on Equity*#	17.3%
Stock Market Record — Class A non-voting shares High	20
Low	17⅝
Close	19
Stock Market Record — Class B common shares High	20⅛
Low	17⅞
Close	19
Property, Plant and Equipment — Gross	2,866.0
— Net	2,227.3
Total Assets	2,743.0
Capitalization	
Long-term debt	711.1
Preferred shares	802.9
Total long-term debt and preferred shares	1,514.0
Shareholders' equity*	698.8
Total capitalization	2,212.8
Capitalization Ratio	
Long-term debt	32%
Preferred shares	36%
Shareholders' equity*	32%
Times Debt Interest Earned (pretax)	4.48

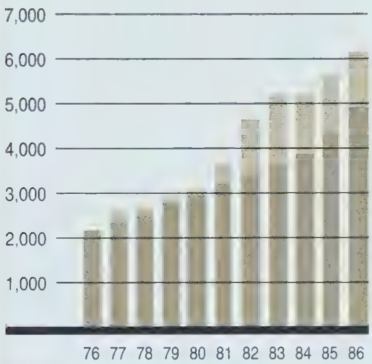
* Includes Class A non-voting shares and Class B common shares.
Where Class A and Class B shares are presented, the comparative figures have been reclassified to reflect the September 10, 1982 two-for-one share reorganization.

\# All information expressed before extraordinary items.

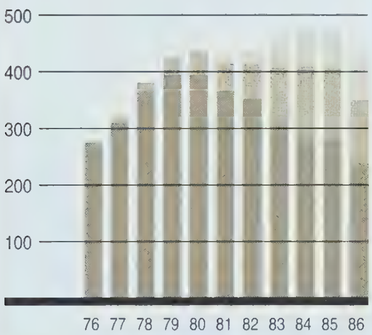
1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
854.1	861.2	928.4	959.1	779.2	581.7	477.9	431.8	318.7	216.5
324.0	340.3	327.2	316.3	201.7	149.8	124.6	114.7	93.9	78.1
147.2	162.2	123.6	116.3	42.9	25.4	22.9	7.5	2.5	1.0
.6	.7	.6	.8	.8	.8	.3	.2	.3	.3
1,325.9	1,364.4	1,379.8	1,392.5	1,024.6	757.7	625.7	554.2	415.4	295.9
479.3	517.3	512.6	444.8	442.2	405.8	342.3	315.5	221.3	134.8
376.9	375.4	327.3	326.2	212.5	166.3	139.1	107.2	87.2	72.8
98.4	118.7	231.3	329.4	195.8	53.2	28.0	26.6	21.8	17.0
105.4	108.5	92.7	78.5	30.6	21.6	17.5	20.0	12.5	8.6
96.6	65.2	56.8	53.1	36.8	29.5	26.5	23.2	18.8	15.6
1,156.6	1,185.1	1,220.7	1,232.0	917.9	676.4	553.4	492.5	361.6	248.8
169.3	179.3	159.1	160.5	106.7	81.3	72.3	61.7	53.8	47.1
46.9	39.5	33.2	15.8	24.6	19.7	7.1	4.7	2.3	1.3
8.9	31.3	30.8	27.2	6.8	2.7	1.5	2.5	1.4	2.3
225.1	250.1	223.1	203.5	138.1	103.7	80.9	68.9	57.5	50.7
75.9	75.5	69.1	74.1	53.7	39.5	27.4	22.4	21.4	22.3
47.8	73.2	66.9	43.1	23.8	14.9	11.7	10.9	8.4	4.7
101.4	101.4	87.1	86.3	60.6	49.3	41.8	35.6	27.7	23.7
								(1.6)	
101.4	101.4	87.1	86.3	60.6	49.3	41.8	35.6	26.1	23.7
60.8	62.9	61.3	45.6	34.9	29.3	21.7	18.7	15.4	12.8
52.4	34.2	26.2	33.0	21.5	17.6	18.1	15.7	11.7	10.8
(16.1)	7.8	5.6	5.1	2.3	1.7	1.9	1.1	.2	.1
4.3	(3.5)	(6.0)	2.6	1.9	.7	.1	.1	.4	
101.4	101.4	87.1	86.3	60.6	49.3	41.8	35.6	27.7	23.7
54.212	54,212	54,212	53,806	45,936	41,636	41,636	37,252	34,244	33,268
54,212	54,212	53,807	50,910	41,822	41,984	37,566	36,293	34,624	31,134
1.87	1.87	1.62	1.69	1.44	1.19	1.12	.99	.81	.78
66.1	58.5	46.3	35.8	26.1	23.8	18.9	16.4	14.4	11.0
1.22	1.08	.86	.71	.63	.57	.51	.46	.43	.38
65.2%	57.7%	53.2%	41.5%	43.1%	48.3%	45.2%	45.9%	55.2%	46.4%
12.02	11.36	10.57	9.82	8.59	7.61	7.00	6.11	5.53	5.18
16.0%	17.1%	15.9%	18.4%	17.8%	16.3%	17.1%	17.0%	15.1%	15.8%
19⅝	17	16¼	16						
16½	13¼	11¾	8½						
19¼	17	15¾	15¾						
19⅝	17	16⅛	15½	12½	13½	10½	9	7¾	7¼
16½	13¼	12	9¼	9¾	9⅛	8	7⅛	6⅜	4¾
19⅜	17	15¾	15½	10⅞	11⅜	9½	8⅛	7¾	7¼
2,623.6	2,421.5	2,179.4	1,890.9	1,594.6	1,324.1	1,059.3	883.9	780.5	688.6
2,068.9	1,962.2	1,787.9	1,559.9	1,318.5	1,083.7	849.4	700.1	618.8	542.3
2,537.9	2,469.3	2,366.8	2,222.6	1,602.7	1,314.1	1,000.6	832.9	731.5	632.0
581.8	603.2	527.2	527.0	453.3	393.6	302.2	233.7	244.3	225.7
791.9	750.8	752.9	654.6	321.2	196.2	148.3	149.2	129.3	99.3
1,373.7	1,354.0	1,280.1	1,181.6	774.5	589.8	450.5	382.9	373.6	325.0
651.4	616.1	573.2	528.6	394.6	316.2	290.3	226.9	187.5	173.9
2,025.1	1,970.1	1,853.3	1,710.2	1,169.1	906.0	740.8	609.8	561.1	498.9
29%	31%	28%	31%	39%	43%	41%	38%	44%	45%
39%	38%	41%	38%	27%	22%	20%	25%	23%	20%
32%	31%	31%	31%	34%	35%	39%	37%	33%	35%
4.35	4.75	4.57	3.81	3.14	3.17	3.59	3.97	3.27	2.66

CONSOLIDATED TEN-YEAR OPERATING SUMMARY

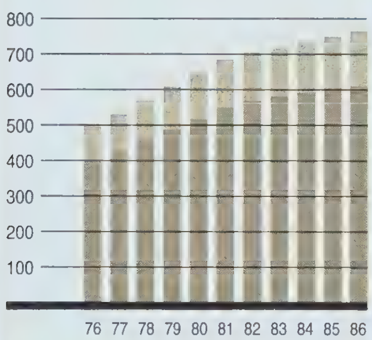
Electric Sales
(millions of kilowatt hours)



Natural Gas System Throughput
(petajoules)



Gas and Electric Customers at Year-end
(thousands)



(Dollars in millions, except as indicated)

	1986
Electric Operations	
Property, plant and equipment in service	1,501.5
Construction work in progress	147.8
Property, plant and equipment — gross	1,649.3
Accumulated depreciation	311.3
Property, plant and equipment — net	1,338.0
Growth over prior year	9%
Capital expenditures	156.2
Sales (millions of kilowatt hours) — retail	4,919
— other utilities	1,166
Growth retail sales over prior year	14%
Average annual use per residential customer (kWh)	7,336
Average annual billing per residential customer ($)	565
Maximum hourly demand (thousands of kilowatts)	895
Generating capacity (thousands of kilowatts)	1,252
Customers at year-end (thousands)	149.8
Number of communities served	351
Power lines (thousands of kilometres)	41.7
Natural Gas Operations	
Property, plant and equipment — gross	1,054.6
Accumulated depreciation	248.0
Property, plant and equipment — net	806.6
Growth over prior year	5%
Capital expenditures	68.0
Sales (petajoules)	235
Transportation (petajoules)	112
Sales and transportation — affiliates (petajoules)	72
Total system throughput (petajoules)	419
Growth over prior year	(11%)
Average annual use per residential customer (gigajoules)	155
Average annual billing per residential customer ($)	558
Maximum daily demand (terajoules)	2,120
Degree days — Edmonton	4,923
— Calgary	4,620
Customers at year-end (thousands)	610.1
Number of communities served	292
Pipelines (thousands of kilometres)	33.5
Non-Utility Energy Operations	
Property, plant and equipment — gross	157.7
Accumulated depreciation	78.3
Property, plant and equipment — net	79.4
Production	
Oil (m^3/d)	201
Gas (10^3m^3/d)	167
Ethane (m^3/d)	701
LPGs (m^3/d)	236
Reserves	
Oil (10^3m^3)	707
Gas (10^6m^3)	1,562
Total Number of Employees	4,099

1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
1,097.8	1,046.8	987.9	911.2	817.8	493.2	439.8	407.2	358.6	332.7
396.8	314.5	227.3	130.3	68.9	243.8	107.7	31.5	34.4	20.0
1,494.6	1,361.3	1,215.2	1,041.5	886.7	737.0	547.5	438.7	393.0	352.7
264.7	232.8	195.5	158.8	127.3	106.7	89.9	75.4	62.2	53.2
1,229.9	1,128.5	1,019.7	882.7	759.4	630.3	457.6	363.3	330.8	299.5
9%	11%	16%	16%	21%	38%	26%	10%	10%	14%
142.0	147.7	171.8	157.2	153.5	190.1	110.7	48.1	44.1	45.9
4,331	3,882	3,618	3,452	3,216	2,994	2,779	2,512	2,358	2,182
1,290	1,265	1,552	1,196	495	34	113	192	228	
12%	7%	5%	7%	7%	8%	11%	7%	8%	8%
7,432	7,264	7,044	7,436	6,988	7,073	7,162	7,058	6,764	6,773
660	660	643	661	474	405	366	358	310	281
844	741	720	693	652	607	573	520	524	455
1,058	1,055	1,056	1,058	1,054	670	668	668	671	686
147.1	143.4	139.9	136.6	134.6	128.8	120.1	112.5	106.9	99.6
348	334	340	332	329	328	325	316	314	301
39.1	37.5	34.6	29.2	25.3	23.7	23.0	22.3	20.8	20.1
990.7	929.6	863.2	757.9	624.7	553.9	479.8	416.8	370.9	333.9
221.3	198.4	175.9	159.9	142.9	129.7	117.7	107.6	99.3	93.0
769.4	731.2	687.3	598.0	481.8	424.2	362.1	309.2	271.6	240.9
5%	6%	15%	24%	14%	17%	17%	14%	13%	14%
69.0	72.9	108.8	135.5	80.9	75.6	64.5	48.2	38.8	39.4
274	286	308	347	364	392	392	357	304	273
131	124	98	63	51	42	30	16	12	
66	61	45	26	11	2	1	2		
471	471	451	436	426	436	423	375	316	273
0%	4%	3%	2%	(2%)	3%	13%	18%	16%	3%
176	166	162	196	165	190	207	201	190	195
621	580	586	625	434	336	308	299	241	190
2,291	2,119	2,147	2,063	2,048	2,051	2,003	1,978	1,681	1,508
5,414	5,349	5,362	6,025	4,595	5,396	5,636	5,530	5,124	4,891
5,124	5,021	4,953	5,602	4,365	5,082	5,366	5,592	5,289	4,885
601.8	593.6	580.7	566.6	549.8	520.0	489.8	457.4	428.4	400.5
292	293	289	285	272	269	272	265	260	257
32.8	32.1	31.1	30.4	29.3	27.9	27.1	25.0	23.1	21.8
133.9	125.9	97.0	87.6	79.2	29.3	28.2	26.3	15.5	
67.9	26.9	19.0	11.4	5.1	3.3	1.9	.3		
66.0	99.0	78.0	76.2	74.1	26.0	26.3	26.0	15.5	
206	260	189	158	142	79	67			
208	125	170	170	121	125	119			
616	651	736	780	952	1,039	1,044			
235	200	170	184	190	189	192			
857	1,577	1,408	889	750	766	694			
1,426	1,535	1,224	1,182	1,186	1,144	944			
4,144	4,099	4,168	4,212	4,313	4,144	3,870	3,592	3,367	3,161

Board of Directors

W. L. Britton, Q.C.°
Barrister and Solicitor
Bennett Jones
Calgary, Alberta

G. L. Crawford, Q.C.°+
Barrister and Solicitor
Parlee McLaws
Calgary, Alberta

B. K. French*
President
Karusel Management Ltd.
Calgary, Alberta

V. L. Horte°
President
V. L. Horte Associates Limited
Calgary, Alberta

W. R. Horton°
Executive Vice President,
Utilities
Canadian Utilities Limited
Edmonton, Alberta

H. E. Joudrie+
President and
Chief Executive Officer
Encor Energy Corporation Inc.
Calgary, Alberta

E. W. King*
Corporate Director
Edmonton, Alberta

R. W. A. Laidlaw+
President and
Chief Executive Officer
Gibson Petroleum Company
Limited
Calgary, Alberta

C. M. Leitch, Q.C.*
Barrister and Solicitor
MACLEOD DIXON
Calgary, Alberta

D. R. B. McArthur*
Corporate Director
Edmonton, Alberta

W. S. McGregor
President and
Chief Executive Officer
Numac Oil & Gas Ltd.
Edmonton, Alberta

C. S. Richardson°
Deputy Chairman of the Board
and Chief Financial Officer
Canadian Utilities Limited
Calgary, Alberta

D. M. Ritchie°
President
Medway Investments
Corporation Ltd.
Edmonton, Alberta

N. W. Robertson*
President and
Chief Operating Officer
ATCO Ltd.
Calgary, Alberta

R. D. Southern°
Chairman of the Board and
Chief Executive Officer
Canadian Utilities Limited
Calgary, Alberta

J. D. Wood°+
President and
Chief Operating Officer
Canadian Utilities Limited
Edmonton, Alberta

° member of the Executive Committee
* member of the Audit Committee
+ member of The Human Resources Committee

Officers

R. D. Southern
Chairman of the Board and
Chief Executive Officer

C. S. Richardson
Deputy Chairman
of the Board and
Chief Financial Officer

J. D. Wood
President and
Chief Operating Officer

W. R. Horton
Executive Vice President,
Utilities

H. N. Bottomley
Vice President,
Finance and Administration

D. B. Mitchell
Vice President,
Human Resources and
Corporate Services

A. E. Scott
Vice President,
Corporate Planning
and Economics

J. A. Walker
Treasurer

A. M. Anderson
Secretary

C. K. Sheard
General Counsel and
Assistant Secretary

J. H. Cook
Assistant Secretary

D. P. Wood
Assistant Secretary

Subsidiary Company Executives

ALBERTA POWER LIMITED

R. D. Southern
Chairman of the Board and
Chief Executive Officer

J. D. Wood
Deputy Chairman of the Board

C. O. Twa
President

R. H. Choate
Vice President, Administration

J. R. Frey
Vice President, Planning
and Business Development

D. B. Mitchell
Vice President,
Human Resources

J. E. A. Morin
Vice President,
Engineering and Construction

G. N. Paicu
Vice President, Energy Supply

H. R. Lewis
Vice President and Controller

P. K. F. McEwen
Vice President,
Customer Services

A. M. Anderson
Secretary/Treasurer

J. H. Cook
Assistant Secretary

C. K. Sheard
Assistant Secretary

D. P. Wood
Assistant Secretary

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

R. D. Southern
Chairman of the Board and
Chief Executive Officer

J. D. Wood
Deputy Chairman of the Board

B. M. Dafoe
President

A. J. L. Fisher
Senior Vice President
and General Manager

J. W. Fildes
Vice President, Operations

W. L. Graburn
Vice President and
General Manager, Gas Supply

J. D. Graham
Vice President,
Engineering and Construction

D. B. Mitchell
Vice President,
Human Resources

G. W. Richards
Vice President,
Rate Administration

T. J. Storey
Vice President and Controller

G. W. Welsh
Vice President,
Gas Supply Engineering

J. M. Willsher
Vice President,
Administration & Marketing

A. M. Anderson
Secretary/Treasurer

J. H. Cook
Assistant Secretary

C. K. Sheard
Assistant Secretary

D. P. Wood
Assistant Secretary

NORTHWESTERN UTILITIES LIMITED

R. D. Southern
Chairman of the Board and
Chief Executive Officer

J. D. Wood
Deputy Chairman of the Board

B. M. Dafoe
President

R. G. Lock
Senior Vice President
and General Manager

R. Armstrong
Vice President,
Engineering and Construction

D. M. Ellard
Vice President,
Administration and Marketing

W. L. Graburn
Vice President and
General Manager, Gas Supply

R. M. Massé
Vice President and Controller

D. B. Mitchell
Vice President,
Human Resources

G. K. Munk
Vice President, Operations

G. W. Richards
Vice President,
Rate Administration

G. W. Welsh
Vice President,
Gas Supply Engineering

A. M. Anderson
Secretary/Treasurer

J. H. Cook
Assistant Secretary

C. K. Sheard
Assistant Secretary

D. P. Wood
Assistant Secretary

ATCOR LTD.

(Operating company of
CU Enterprises Inc.)

R. D. Southern
Chairman of the Board

J. D. Wood
Deputy Chairman
of the Board

W. A. Elser
President and
Chief Executive Officer

D. L. Weiss
Vice President
Gas Processing and Marketing

R. A. Johnson
Vice President,
Exploration and Production

D. H. Boyle
Treasurer

R. E. Pratt
Controller

D. P. Wood
Secretary

A. M. Anderson
Assistant Secretary

CORPORATE INFORMATION

Canadian Utilities Limited was incorporated under the laws of Canada on May 18, 1927 and was continued under the Canada Business Corporations Act by Articles of Continuance on August 15, 1979.

Registered Head Office

10035 - 105th Street
Edmonton, Alberta, Canada
T5J 2V6
Telephone: (403) 420-7310

Valuation Day

The Valuation Day price of Canadian Utilities' Class A non-voting and Class B common shares adjusted for the stock split of September 15, 1972, and the replacement of common shares by the Class A and B shares on September 10, 1982, was $4.66.

Annual Meeting

The annual meeting of shareholders will be held May 20, 1987 at the Calgary Convention Centre, Calgary, Alberta.

Auditors

Price Waterhouse
2401 Toronto Dominion Tower
Edmonton Centre
Edmonton, Alberta T5J 2Z1

Transfer Agents and Registrars

Halifax/Montreal/Toronto/Winnipeg/Regina/Calgary/Edmonton/Vancouver

Class A non-voting and Class B common shares, Preferred, Series Preferred and Second Preferred (Series C, G, I, K, L and M) Shares
The Royal Trust Company

Second Preferred Shares, Series H
The Canada Trust Company

Trustee and Registrar

Montreal/Toronto/Winnipeg/Calgary/Edmonton/Vancouver

Debentures
National Trust Company

Stock Exchange Listings

Class A non-voting and Class B common shares
Toronto, Montreal and Alberta Stock Exchanges

Preferred and Series Preferred Shares
Toronto Stock Exchange

Second Preferred (Series C, G, H, I, K, L and M) Shares
Toronto and Montreal Stock Exchanges

Euro-Dollar Debentures
London Stock Exchange

Canadian Western Natural Gas
Service since 1912

AN ANNIVERSARY YEAR

In 1987, Canadian Western Natural Gas Company Limited marks its 75th anniversary of gas service to southern Alberta. Also in 1987, Canadian Utilities Limited and Alberta Power Limited celebrate their 60th anniversaries. These corporate milestones will be highlighted at the Canadian Utilities' annual meeting of shareholders in Calgary on May 20, 1987.

CANADIAN UTILITIES LIMITED

An ATCO Company

Our Seventy-fifth Anniversary

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

THE COMPANY TODAY

One of Canada's pioneer natural gas utility companies, Canadian Western Natural Gas Company Limited today provides natural gas service to more than two hundred and eighty thousand Alberta customers in one hundred and fourteen communities from south of Red Deer to the U.S. border.

Canadian Western is a subsidiary of Canadian Utilities Limited, an ATCO company. Other members of the CU group are Northwestern Utilities Limited, Alberta Power Limited, and a non-utility energy company, ATCOR Ltd.

CANADIAN WESTERN
NATURAL GAS

THE COMPANY TODAY

O[illegible] natural gas utility [illegible] Canadian Western Natural Gas Company [illegible] provides natural gas service to more than two hundred [illegible] eighty thousand Alberta customers in one hundred and fourteen communities from south of Red Deer [illegible] the U.S. border.

Canadian Western is a subsidiary of Canadian Utilities Limited [illegible] ATCO company. Other members of the CU group are Northwestern Utilities Limited, Alberta Power Limited, and a non-utility energy company, ATCOR Ltd.

CANADIAN WESTERN
NATURAL GAS

FOUNDING PRESIDENT
EUGENE COSTE

Natural gas service arrived in southern Alberta in the summer of 1912, marked by flare-lighting ceremonies July 12 in Lethbridge and July 17 in Calgary. Those are the dates on which most of our diamond jubilee celebrations are based. Actually, the story of natural gas in southern Alberta started long before 1912.

Eugene Coste, considered the father of the natural gas industry in Canada, brought the first commercial discoveries into production in Ontario in 1889. The Alberta natural gas saga began when Coste travelled west to investigate the possibility of drilling for natural gas near Bow Island, east of Lethbridge. Coste, then working as a consulting geological engineer with the Canadian Pacific Railway, was convinced that there was an almost unlimited amount of natural gas in this area.

On a February day in 1909 Coste and his chief driller, W. R. "Frosty" Martin, brought in the "Old Glory" well on the bank of the South Saskatchewan River near Bow Island and the dream began to transform into reality.

Incorporated on July 19, 1911, the Canadian Western Natural Gas, Light, Heat and Power Company Limited then proceeded to build the pipeline which would bring gas to Lethbridge, Calgary, Okotoks and Nanton in 1912. The same year Canadian Western also brought service to Brooks.

And so, the Canadian Western story began!

When the Bow Island discovery well, Old Glory, "blew in" February, 1909, the stage was set for the natural gas era in Alberta.

The first step in Eugene Coste's plan to bring gas to southern Alberta involved acquiring a lease of the Bow Island reserves from the CPR. He convinced Sir Clifford Sifton, former Minister of the Interior, and Sir William Mackenzie, president of the Canadian Northern Railway, that building a pipeline from the Bow Island field was a sound investment. He then incorporated the company that was first known as the Canadian Western Natural Gas, Light, Heat and Power Company Limited, and proceeded to raise money to finance its first venture.

The earliest wells were drilled with a cable tool rig which had a chisel as the bit. The rig was built of wood, and the water for the steam boiler had to be hauled by horse-drawn wagon.

The line from Bow Island to Calgary was sixteen inches in diameter and one hundred and seventy miles long. It was completed in just eighty-six days and was the longest sixteen-inch line in North America at that time. When natural gas arrived in Calgary in the summer of 1912 the flare-lighting ceremony on July 17 attracted over twelve thousand citizens.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1. *The crew that drilled the Old Glory discovery well at Bow Island pose with Eugene Coste. At left are W. R. Martin and H. Gloyd.*
2. *The success of the Old Glory well convinced Coste that there was a field large enough to supply natural gas to most of southern Alberta.*
3. *Using mostly manpower and horse-drawn vehicles, construction of the 170-mile transmission line from the Bow Island field to Lethbridge and then to Calgary took just 86 days.*

Early pipelaying was done by pick and shovel, helped by a steampowered ditching machine.

Pipe for the lines was hauled by horse-drawn wagon. The old livery stable where the horses were kept was located across the street from City Hall in Calgary. One of the company's first "drivers" was Bill Lindsay, who joined Canadian Western in 1912 and recalled many years later that he would often get up as early as 5:00 a.m. to haul pipe and tools for various jobs. In 1918 he graduated to driving the company's first one-ton truck.

In 1913, after the end of Canadian Western's first full year of operation, the company was serving over six thousand customers. By 1914 there were twenty wells producing in the Bow Island field.

Those early years were not without their problems. The first major break in the transmission line occurred on a cold Saturday night in the winter of 1915. An emergency train rushed a repair crew and supplies to the site of the break, and forty-eight frantic hours later gas was flowing again and service returned to normal.

In the fall of 1917 a blowout in the main line near Lethbridge had gas company employees working feverishly around the clock until service was restored seventy-two hours later.

1. *Wedging a valve into position.*
2. *This coal-fired trenching machine provided steam power for construction of the historic line.*
3. *Horses were used to haul the 16-inch diameter pipe sections for the 1912 line. It transmitted gas for more than sixty years before being gradually replaced. The final section, from Taber to Bow Island, was replaced in 1986.*

Canadian Western's first offices in Calgary were at 128 Seventh Avenue East. From there the company branched out with a showroom in the Beveridge Block at the corner of Seventh Avenue and First Street, and an office acquired from the Calgary Gas Company Limited at First Street West and Tenth Avenue.

An office building constructed in 1913 at 215 Sixth Avenue West was occupied by Canadian Western until 1952. There were two shop areas: the East Calgary shop (which was later sold) and the West End Shop at Eleventh Avenue and Tenth Street West, which in later years expanded to occupy a half city block. Canadian Western's first office in Lethbridge was in the Hull Block at the corner of Third Avenue and Seventh Street South.

As the company approached the end of its first decade of service, the need for more producing fields became evident. Further exploration in the Bow Island area proved disappointing, however, and so in 1922 a line was built to the Turner Valley field. This saved the day, because Bow Island reserves were depleting rapidly.

1. *The Calgary Gas Co. offices at First Street West and Tenth Avenue. The company's artificial gas plant and 30 miles of mains served about 2,250 customers when it was acquired by Canadian Western in 1911.*
2. *Shown in the original Calgary office are Harold E. Timmins (seated) and Arthur S. Kruger.*
3. *An early employee posed for this photograph in one of the company's first offices in 1914.*

Between 1917 and 1920 the depletion of the Bow Island reserves placed great economic pressures on the company, forcing it to apply for a substantial rate increase. The City of Calgary approved the application and the matter went to the Board of Public Utility Commissioners.

The Board allowed a rate increase, on the condition that another line be built to the Turner Valley field to bring in more gas. The jurisdiction of the Board was challenged by the City of Lethbridge, and the Supreme Court of Canada entered the picture, ruling in favor of Canadian Western.

The mid-twenties marked a turning point for the company. New sources of natural gas were coming on stream, and Canadian Western was able to reverse the painful trend towards higher rates by instituting a series of reductions.

Despite competition from inexpensive coal for space heating, the company moved steadily forward with improvements to the system and increases in the number of customers.

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1. *An early construction crew. Note the promotional slogan: "Cook with gas — better results, less cost".*
2. *One of the company's first employees, Kit Fawcett, shows off his classic two-wheeler. Bicycles would later be pressed into service by customer service personnel during World War II when gasoline rationing was in effect.*
3. *Some of Canadian Western's early Lethbridge employees pose in front of the company offices located next to the Marquis Hotel.*

In 1925 Canadian Western became associated with an American organization known as the International Utilities Corporation which was able to provide financing for the growth years ahead.

At first International Utilities was simply an agency Canadian Western used for the raising of money, but as time went on the corporation bought an increasing number of Canadian Western's common shares and eventually acquired controlling interest.

Eugene Coste, the original president, left the company in 1922, turning the presidency over to H. B. Pearson. Then with the International Utilities involvement the presidency went to C. J. Yorath, who was already associated with gas and electric operations in other parts of Western Canada.

Canadian Western organized a new business department to help promote the sale of gas. As sales increased, rates came down accordingly.

By 1929 the company's net rate was thirty-three cents per thousand cubic feet, and annual revenue had climbed well over the two-million-dollar mark. Canadian Western was in a healthy condition to face the storms of the imminent Great Depression.

The depression years brought their share of hardships to Canadian Western, beginning with the death of president C. J. Yorath at the age of fifty-two on April 2, 1932. He was succeeded by H. R. Milner, K.C. It was these two early presidents, Yorath and Milner, who set a style of utility management dedicated to serving the people of Alberta.

Early Construction

Natural gas service to southern Alberta communities expanded at a steady pace throughout the 1930s and '40s, as improvements in equipmen and materials helped speed the company's growth.

Welding masks and safety hard hats were not yet part of the construction scene, as these early pipeline construction pictures attest.

One of the challenges tackled in the thirties was the storing of natural gas reserves for use during peak load periods. Turner Valley gas was compressed and pumped into the depleted Bow Island field. Canadian Western became a pioneer in this method of storing gas.

In 1935 the company built a new headquarters in Calgary immediately east of the old office quarters. Modernization of office equipment followed, with billing machines replacing outdated manual billing.

The search for more gas continued. Some experiments were successful, some disappointing. The deepest well in the British Empire was drilled in 1937 near High River; it turned out to be a dry hole and was abandoned.

The thirties featured new promotional campaigns, always with emphasis on service. The home service department, organized in 1929, introduced cooking schools and demonstrations of new appliances. And the marketing staff staged highly effective appliance displays at the Calgary Exhibition and Stampede.

Early Transportation

New company vehicles were obviously a source of pride and a popular subject for early photographs. The top photograph shows the first service truck of Canadian Western's sister company, Northwestern Utilities, which brought natural gas service to Edmonton in 1923. Canadian Western's first meter cart is shown in the bottom photograph.

By the end of the thirties Canadian Western was well established, having weathered hardships and setbacks. But now there were war clouds on the horizon, and in September, 1939 Canada entered the Second World War.

Large numbers of staff members left to join the armed forces, and the company assured them that they would retain their seniority and have a job to come back to when the war was over.

On November 3, 1939, the company opened a new office and warehouse in Lethbridge.

Always active in community affairs, Canadian Western began sponsoring an annual chuckwagon race trophy in 1940 for presentation at the Calgary Stampede. It was a bronze caste sculpture by Charles Biel of Banff, and its first recipient was Dick Cosgrove of Rosebud, Alberta.

The Canadian Western Glee Club was a popular community activity in the thirties and forties. The group won many trophies in festival competitions and performed at public functions as a goodwill gesture.


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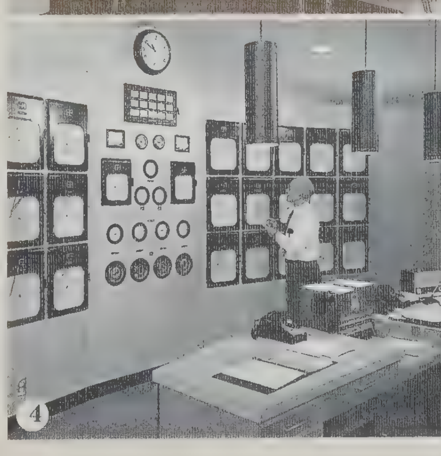
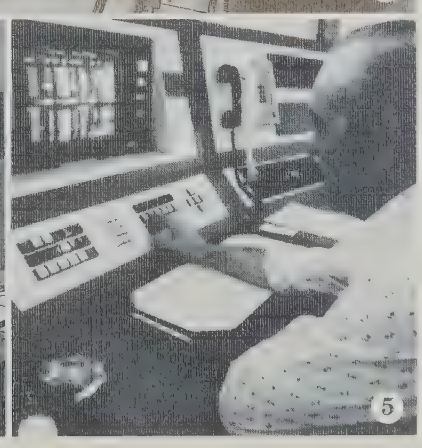
1. *An early photo of the Bow Island gas field.*
2. *A window display from the early days of marketing natural gas appliances.*
3. *Making adjustments to a wellhead at the Bow Island field.*
4. *Gas company employees are honoured at the company's annual long service awards banquet — a tradition since 1929.*
5. *Canadian Western's popular Glee Club entertained community audiences and employees for many years.*

The war years were a time of economic belt-tightening, but the cessation of hostilities in 1945 signalled the start of unprecedented new expansion programs. By the end of the forties the company was again engaged in recordbreaking construction programs. The conversion of the transit system in Calgary from street cars to buses, for instance, necessitated the realignment of many city blocks of mains and services.

The year 1950 saw the sod-turning for a new head office building in Calgary. The modern two-storey structure was completed in June, 1952.

In 1951 Canadian Western built a transmission line from the Jumping Pound field near Cochrane west to Banff, taking in the Canada Cement Plant at Exshaw, an important new industrial customer. Natural gas was officially turned on in Banff on October 19, 1951.





1. *Laying the pipeline to Banff in 1951.*
2. *Canadian Western's head office at 140 - 6th Avenue S.W., built in 1952. Six storeys were added in 1957.*
3. *The home service department has advised and assisted homemakers since 1929 by telephone, mail, in person and on radio and television.*
4. *In the Calgary control station, methods of measuring gas flow have vastly improved over the years.*
5. *Modern techniques of regulating gas flow feature computerized remote operation of gas valves many miles away.*

Canadian Western and its sister company, Northwestern Utilities Limited, both reached a milestone in their history in 1952 as each company installed its fifty-thousandth meter.

In the spring of 1953 an emergency occurred nicknamed "Operation Dustbowl". A large quantity of silica beads had passed into the transmission line from a natural gas scrubbing plant west of Calgary. These beads had been ground to dust in the pipeline, and when they reached Calgary they clogged gas burners in thousands of homes.

With assistance from staff from Lethbridge, servicemen and meter readers worked long hours to restore service.

By the mid-fifties the company was distributing well over thirty billion cubic feet of natural gas per year - more than any other company in Canada. Office expansion in Calgary continued, and by 1957 the company had outgrown the new facility and six storeys were added.

In 1955 Canadian Western built nearly sixty miles of pipeline from Lethbridge to the Cardston area. This was the largest single extension since the company's original system was installed.

The following year the company built a "northern extension" to service the communities between Calgary and Red Deer.

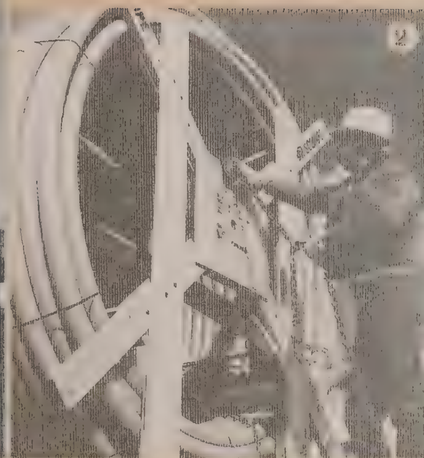
1. *A company milestone was recorded in 1952 with the installation of the 50,000th meter.*
2. *Canadian Western and its employees have been active in community activities throughout the company's history, including the annual United Way bed races shown here.*
3. *The company has sponsored chuckwagon race trophies at the Calgary Stampede since 1940. Shown here is Senior Vice-President and General Manager John Fisher (centre) officiating at one of the trophy presentations.*

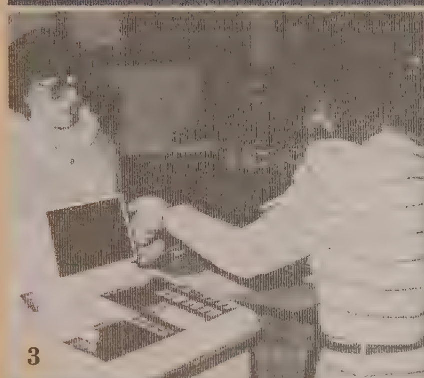
In 1964, the company introduced plastic pipe on a large scale to fuel irrigation systems in southern Alberta, gaining recognition as an industry leader in the use of plastic pipe for natural gas distribution.

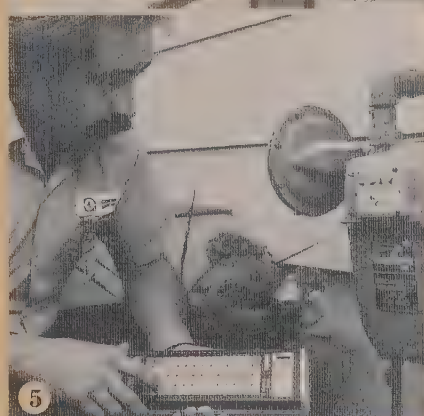
In the seventies Canadian Western led the way with other "firsts", such as remote meter reading and the use of natural gas as a fuel for its service vehicles. The company contributed to international experiments in the use of natural gas "fuel cells" as total energy packages, generating electricity as well as providing space heating.

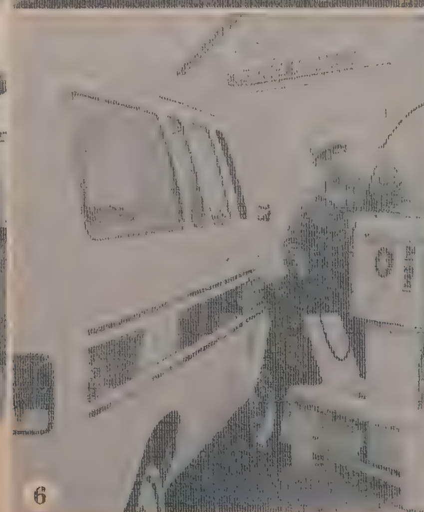
The progressive attitude of a growing company was also demonstrated as Canadian Western began to computerize financial planning, central accounting and payroll functions as well as other company technical operations.

The seventies brought sweeping organizational changes. In 1972 Canadian Utilities Limited became the holding company for Canadian Western. In 1980, International Utilities' controlling interest was acquired by Calgary-based ATCO Ltd., under the leadership of Ron Southern.









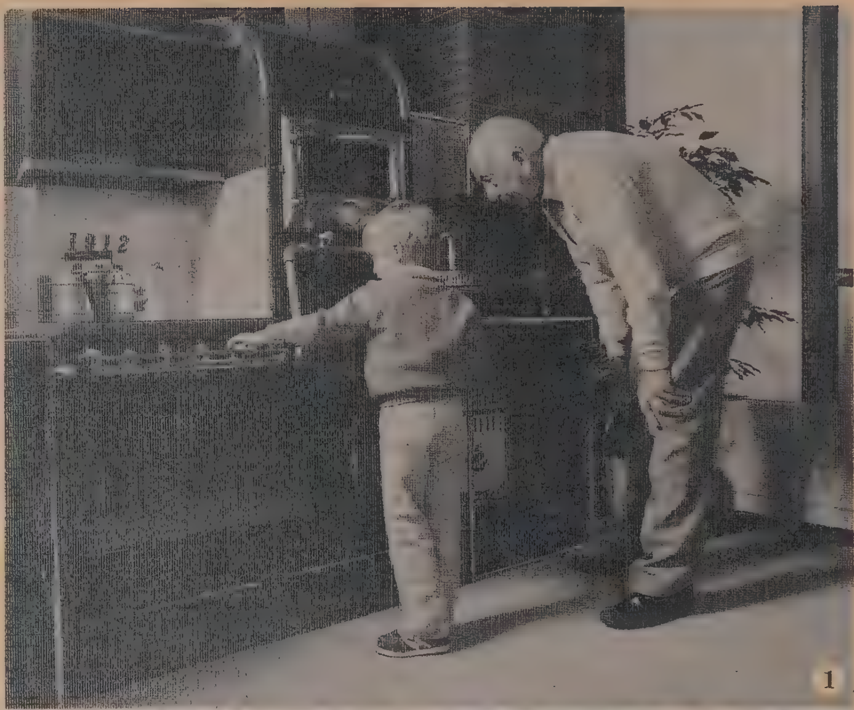
1. *Canadian Western Centre in Calgary has served as corporate headquarters since 1982.*
2. *The company pioneered the use of plastic pipe in rural areas and in recent years has used it extensively in urban distribution systems.*
3. *Computers store and retrieve customer billing information so employees can quickly respond to customer inquiries.*
4. *Meters are loaded aboard vehicles at the company's central operations facility in Calgary.*
5. *Computerized meter reading is the latest technological innovation introduced by Canadian Western.*
6. *Natural gas-fueled vehicles are emerging as an alternative for many commercial transportation users.*

ATCO, a world leader in transportable shelters, energy services, resource development and real estate, brought a new dimension to Canadian Western's management. As well, ATCO's acquisition of International Utilities shares meant that Canadian Western and other members of the CU group of companies were now Canadian-owned.

Today, Canadian Western's senior management consists of Ron Southern, chairman and chief executive officer; John Wood, deputy chairman; Bruce Dafoe, president; and John Fisher, senior vice-president and general manager. (Ron Southern is also chairman and chief executive officer of Canadian Utilities Limited; John Wood is president and chief operating officer of CU). Another key member of management is Bill Horton, executive vice-president, utilities for CU. This relatively new team has already faced the challenges of a deep recession and a collapse in world oil prices which have been especially severely felt in Alberta. Thanks to a superb effort by employees at all levels, the company has remained strong throughout this period and is well positioned for continued progress in the latter years of the 20th Century.

This brief history of Canadian Western is a tribute to the diligent men and women who through the years, as employees of the company, have made possible three-quarters of a century of reliable natural gas service to the people of southern Alberta.

Many employees have devoted a good portion of their lives to serving the public. Because of their number it has not been possible to mention them by name. But on this, the company's seventy-fifth anniversary, we salute them for playing such a major part in building a better Alberta.



1. *Retired Canadian Western employee Tom Grafton guides his grandson Nicholas through the company's Museum and Archives on the main floor of Canadian Western Centre in Calgary.*
2. *Customer serviceman Gary Williams adjusts an appliance for Calgary customer Margaret Edwards. Providing prompt, courteous customer service has been a tradition with Canadian Western since its inception.*

Canadian Western is proud of its role in the growth and development of Alberta and will continue to preserve its tradition of service.


SERVICE

ronalds printing

AR36

CANADIAN UTILITIES LIMITED

Notice of Annual and Special Meeting of Shareholders

April 24, 1986

NOTICE IS GIVEN that the Fifty-Ninth Annual and Special Meeting of Shareholders of Canadian Utilities Limited will be held at the Four Seasons Hotel, Edmonton, Alberta on Thursday, the 24th day of April, 1986 at the hour of 10:00 o'clock in the forenoon, Mountain Standard Time, for the following purposes:

1. to receive and consider the annual report containing the consolidated financial statements for the year ended December 31, 1985, accompanied by the report of the auditor;
2. to elect directors;
3. to appoint the auditor;
4. to consider and, if deemed appropriate, to pass a resolution to confirm an amendment made by the directors to By-Law No. 1 of the Corporation; and
5. to transact such other business as may properly be brought before the Annual and Special Meeting or an adjournment thereof.

DATED at Edmonton, Alberta this 14th day of March, 1986.

By Order of the Board,

A.M. Anderson

A.M. Anderson
Secretary

If you are unable to attend the meeting kindly complete and sign the accompanying form of proxy and return it in the envelope provided to reach the Corporation at least 24 hours, excluding Saturdays and holidays, preceding the Annual and Special Meeting or an adjournment thereof.

MANAGEMENT PROXY CIRCULAR

SOLICITATION OF PROXIES

This Management Proxy Circular is furnished in connection with the solicitation by the management of CANADIAN UTILITIES LIMITED (the "Corporation") of proxies to be used at the Annual and Special Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the accompanying notice. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by officers and employees of the Corporation. The cost of the solicitation by the management will be borne by the Corporation.

APPOINTMENT OF PROXYHOLDER AND REVOCATION OF PROXY

The persons named in the accompanying form of proxy are directors of the Corporation. A shareholder entitled to vote at the Annual and Special Meeting may by means of a proxy appoint a proxyholder and one or more alternate proxyholders, who are not required to be shareholders, other than the persons designated in the accompanying form of proxy, to attend and act at the Annual and Special Meeting in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. This right may be exercised either by striking out the names of the persons designated in the form of proxy and inserting in the space provided the name of the other person or persons a shareholder wishes to appoint or by completing and executing another proper form of proxy. A shareholder desiring to be represented at the Annual and Special Meeting by a proxyholder must deposit a proxy with the Corporation at least 24 hours, excluding Saturdays and holidays, preceding the Annual and Special Meeting or an adjournment thereof.

A shareholder may revoke a proxy by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing at the registered office of the Corporation, 1927, 10035 - 105 Street, Edmonton, Alberta, T5J 2V6, at any time up to and including the last business day preceding the day of the Annual and Special Meeting, or an adjournment thereof, at which the proxy is to be used, or with the chairman of the Annual and Special Meeting on the day of the Annual and Special Meeting or an adjournment thereof.

CLASS B COMMON SHARES AND PRINCIPAL HOLDERS THEREOF

There are outstanding 25,760,756 Class B common shares of the Corporation entitled to be voted at the Annual and Special Meeting. Each Class B common share entitles the holder thereof to one vote. The directors have fixed March 14, 1986 as the record date for determining shareholders entitled to receive Notice of the Annual and Special Meeting of Shareholders.

To the knowledge of the directors and officers of the Corporation, the only persons who beneficially own or exercise control or direction over shares of the Corporation carrying more than 10% of the votes attached to the shares of the Corporation are ATCO Ltd. ("ATCO") and TransAlta Resources Corporation ("TransAlta Resources"), a wholly-owned subsidiary of TransAlta Utilities Corporation ("TransAlta Utilities"). ATCO indirectly owns 13,578,552 Class B common shares, being approximately 52.7% of the Class B common shares outstanding. R. D. Southern controls ATCO. Reference is made to "Election of Directors". TransAlta Resources owns 7,184,046 Class B common shares, being approximately 27.9% of the Class B common shares outstanding. On August 3, 1982 the Corporation, ATCO and TransAlta Utilities entered into an agreement (the "Divestiture Agreement") intended to resolve certain differences among the corporations arising from reciprocal shareholdings. In addition to other matters, the Divestiture Agreement provides that the Corporation and TransAlta Utilities shall (a) vote in favour of any corporate reorganization; and (b) not oppose any other matter proposed by the other at shareholders' meetings except as to a vote upon a corporate reorganization or upon any other matter which would materially reduce the value to the Corporation or TransAlta Utilities of its investment in the shares of the other corporation. On November 25, 1983 TransAlta Utilities issued warrants to purchase 7,856,250 Class B common shares of the Corporation at the price of $15.00 per share on or before December 15, 1987. In the event that all of the warrants are exercised, TransAlta Utilities will have divested itself of all of its presently held Class B common shares of the Corporation.

CLASS A NON-VOTING SHARES

The holders of the Class A non-voting shares of the Corporation are entitled to receive Notice of the Annual and Special Meeting of Shareholders and to attend and participate in discussions at the Annual and Special Meeting, but are not entitled to vote at the Annual and Special Meeting.

The holders of the Class A non-voting shares are also entitled, in certain circumstances briefly described below, and subject to changes in the exchange ratio, to exchange their Class A non-voting shares for Class B common shares on the basis of one Class A non-voting share for each Class B common share.

The rights of exchange attaching to the Class A non-voting shares in certain circumstances are set out in a Certificate of Amendment dated September 10, 1982 issued to the Corporation. Events giving rise to the rights of exchange include: (a) certain take-over bids where the offeror will in result own, together with the offeror's previously owned Class B common shares, more than 50% of the outstanding Class B common shares, and (b) ATCO, the present controlling shareholder of the Corporation, ceasing to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B common shares of the Corporation. The rights afforded to the holders of Class A non-voting shares in the nature of take-over bid protection are limited. A holder of Class A non-voting shares shall only be entitled to the take-over bid protection rights described in the Certificate of Amendment or as may otherwise be conferred by law. Should a take-over bid be made in circumstances other than those therein described, a holder of Class A non-voting shares shall have no right to tender such shares in exchange for Class B common shares of the Corporation.

VOTING OF PROXIES

All Class B common shares of the Corporation represented by a proxy in favour of the persons designated in the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for in accordance with the instructions of the shareholder contained in the proxy. Where no choice is specified by the shareholder in the proxy, the proxy will be voted in favour of the three specific matters referred to therein.

The accompanying form of proxy confers discretionary authority in respect of amendments to matters identified in the Notice of Annual and Special Meeting of Shareholders and in respect of other matters that may properly come before the Annual and Special Meeting. The management of the Corporation is not aware of any amendments to matters identified in the Notice of Annual and Special Meeting of Shareholders or of other matters that are to be presented for action at the Annual and Special Meeting.

ELECTION OF DIRECTORS

The management of the Corporation proposes to nominate, and the persons named in the accompanying form of proxy intend to vote for the election as directors of, the persons whose names are set forth below, all of whom are now directors and have been for the periods indicated. The management of the Corporation does not contemplate that any one of the nominees will be unable to serve as a director. Each director elected will hold office until the close of the next annual meeting of shareholders of the Corporation. Following is information with respect to each proposed nominee for the board of directors.

Names of proposed nominees and all other major positions and offices held with the Corporation	All major positions and offices held with significant affiliates of the Corporation	Principal occupation or employment	Periods served as a director of the Corporation	Approximate number of shares of each class of shares of the Corporation and of ATCO beneficially owned or over which control or direction is exercised
W.L. Britton, Q.C. (1)	Director of ATCO and of Alberta Power Limited (4)	Partner, Bennett Jones (barristers & solicitors)	1980 to date	675 Series H second preferred shares of the Corporation; 3,870 Class I non-voting and 3,935 Class II voting shares of ATCO

Names of proposed nominees and all other major positions and offices held with the Corporation	All major positions and offices held with significant affiliates of the Corporation	Principal occupation or employment	Periods served as a director of the Corporation	Approximate number of shares of each class of shares of the Corporation and of ATCO beneficially owned or over which control or direction is exercised
G.L. Crawford, Q.C. (1) (3)	Director of Canadian Western Natural Gas Company Limited	Associate, McLaws & Company (barristers & solicitors)	1972 to date	285 Class A non-voting and 100 Class B common shares and 1,000 CU-B warrants of the Corporation
B.K. French (2)	Director of ATCO (4)	President, Karusel Management Ltd. (property management and management consultants)	1981 to date	350 Class B common shares of the Corporation; 1,900 Class I non-voting and 3,000 Class II voting shares of ATCO
V.L. Horte (1)		President, V.L. Horte Associates Limited (oil, gas and energy consulting firm)	1981 to date	100 Class A non-voting and 100 Class B common shares of the Corporation
W.R. Horton, Executive Vice-President, Utilities (1)	President and Chief Operating Officer and director of Alberta Power Limited, Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited and director of ATCOR Resources Limited	Executive Vice-President, Utilities of the Corporation and President and Chief Operating Officer, Alberta Power Limited, Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited	1984 to date	100 Class B common shares of the Corporation; 100 Class II voting shares of ATCO
H.E. Joudrie (3)		President and Chief Executive Officer, Dome Canada Limited (oil and gas exploration and development company)	1982 to date	
E.W. King (2)	Director of ATCO, Alberta Power Limited, Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and ATCOR Resources Limited	Corporate Director	1968 to date	3,174 Class A non-voting and 3,174 Class B common shares of the Corporation; 3,000 Class I non-voting and 1,000 Class II voting shares of ATCO
R.W.A. Laidlaw (3)	Director of ATCOR Resources Limited	President and Chief Executive Officer, Gibson Petroleum Company Limited (marketing and transportation company)	1981 to date	100 Class B common shares of the Corporation; 500 Class I warrants of ATCO
C.M. Leitch, Q.C. (2)		Partner, MACLEOD DIXON (barristers & solicitors)	1984 to date	200 Class A non-voting shares of the Corporation
D.R.B. McArthur (2)		Corporate Director	1969 to date	101 Class A non-voting, 101 Class B common, 1,500 Series H and 1,000 Series I second preferred shares of the Corporation
W.S. McGregor		President and Chief Executive Officer, Numac Oil & Gas Ltd. (oil, gas and mineral exploration company)	1972 to date	500 Class I non-voting shares of ATCO

Names of proposed nominees and all other major positions and offices held with the Corporation	All major positions and offices held with significant affiliates of the Corporation	Principal occupation or employment	Periods served as a director of the Corporation	Approximate number of shares of each class of shares of the Corporation and of ATCO beneficially owned or over which control or direction is exercised
C.S. Richardson, Deputy Chairman of the Board and Chief Financial Officer (1)	Senior Vice-President, Finance and director of ATCO and director of Alberta Power Limited, Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and ATCOR Resources Limited (4)	Senior Vice-President, Finance, ATCO (natural resource services, property development and manufacturing company) and Deputy Chairman of the Board and Chief Financial Officer of the Corporation	1980 to date	1,000 Class B common, 750 Series H, 200 Series I and 400 Series K second preferred shares of the Corporation; 17,544 Class I non-voting and 14,800 Class II voting shares of ATCO
D.M. Ritchie (1)		President, Medway Investments Corporation Ltd. (real estate properties and energy resources management company)	1981 to date	400 Class II voting shares of ATCO
N.W. Robertson (2)	President and Chief Operating Officer and director of ATCO and director of ATCOR Resources Limited (4)	President and Chief Operating Officer, ATCO	1980 to date	3,500 Class A non-voting shares of the Corporation; 13,784 Class I non-voting and 1,600 Class II voting shares of ATCO
R.D. Southern, Chairman of the Board and Chief Executive Officer (1)	Deputy Chairman of the Board and Chief Executive Officer and director of ATCO, Chairman of the Board and Chief Executive Officer and director of Alberta Power Limited, Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited and Chairman of the Board and director of ATCOR Resources Limited (4)	Deputy Chairman of the Board and Chief Executive Officer, ATCO and Chairman of the Board and Chief Executive Officer of the Corporation	1977 to 1979 1980 to date	1 Class A non-voting, 18,601 Class B common, 45,000 Series H, 8,000 Series I and 20,000 Series K second preferred shares, and 14,200 CU-B warrants of the Corporation; 5,186,313 Class I non-voting and 2,812,580 Class II voting shares of ATCO (5)
J.D. Wood, President and Chief Operating Officer (1) (3)	Director of ATCO and Deputy Chairman of the Board and director of Alberta Power Limited, Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and ATCOR Resources Limited (4)	President and Chief Operating Officer of the Corporation	1981 to date	1,000 Class II voting shares of ATCO

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Human Resources Committee
(4) Director or officer of subsidiaries of ATCO
(5) R.D. Southern owns 60% and ADSCO Investments Ltd., a company of which R. D. Southern is the sole common shareholder, owns 40% of the equity shares of Sentgraf Enterprises Ltd. which owns 3,043,552 Class I non-voting shares and 1,521,776 Class II voting shares of ATCO. ADSCO Investments Ltd. owns 528,406 Class I non-voting shares and 262,624 Class II voting shares of ATCO. The stated shareholdings of R. D. Southern include these shares. R. D. Southern controls ATCO which is the beneficial owner of 13,578,552 Class A non-voting and 13,578,552 Class B common shares of the Corporation.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation, ATCO and their affiliates have purchased insurance with an annual aggregate limit of $25,000,000 for such corporations and for their directors and officers. The approximate amount of premium paid by the Corporation in the financial year ended December 31, 1985 in respect of directors of the Corporation as a group was $1,770 and in respect of the officers of the Corporation as a group was $1,226. No part of the premium was paid by any director or officer. The Corporation is responsible for the first $100,000 of any loss and $5,000 is deductible in respect of claims against each director or officer to a maximum of $25,000.

REMUNERATION OF DIRECTORS AND OFFICERS

The following statement sets forth the aggregate remuneration paid or payable by the Corporation and by each of its subsidiaries in respect of the Corporation's financial year ended December 31, 1985 to the directors in their capacity as directors of the Corporation and its subsidiaries and, separately, to the officers of the Corporation who, in their capacity as officers or employees of the Corporation and its subsidiaries, received aggregate remuneration in excess of $40,000 in that year.

	NATURE OF REMUNERATION			
	Directors' fees	Salaries	Other(1)	Total
REMUNERATION OF DIRECTORS				
(A) Number of directors: 17				
(B) Body corporate incurring the expense:				
Corporation	$192,500			$ 192,500
Alberta Power Limited	5,800			5,800
Canadian Western Natural Gas Company Limited	4,200			4,200
Northwestern Utilities Limited	1,200			1,200
ATCOR Resources Limited	16,783			16,783
REMUNERATION OF OFFICERS				
(A) Number of officers, of whom 4 are directors: 13				
(B) Body corporate incurring the expense:				
Corporation	21,500	$ 914,159	$138,503	1,074,162
Alberta Power Limited	6,400	334,377	31,667	372,444
Canadian Western Natural Gas Company Limited	6,900	334,377	31,667	372,944
Northwestern Utilities Limited	6,300	334,377	31,667	372,344
ATCOR Resources Limited	21,200	435,260		456,460
TOTALS	$282,783	$2,352,550	$233,504	$2,868,837

(1) This represents the estimated aggregate cost to the Corporation and its subsidiaries in the Corporation's financial year ended December 31, 1985 of all benefits proposed to be paid under any pension or retirement plan upon retirement at normal retirement age. The only pension or retirement benefits payable to the directors of the Corporation are payable to directors who are or have been officers of the Corporation.

(2) In 1985, there were 13 executive officers of the Corporation within the meaning of the Securities Acts of Alberta, Ontario and Quebec. The aggregate cash compensation paid to the executive officers by the Corporation and its subsidiaries for services rendered during 1985 was $2,755,900.

COMPENSATION OF DIRECTORS

Directors of the Corporation have fixed the annual retainer for directors, the annual retainer for chairmen of committees and meeting fees, which in 1985 amounted to $10,000, $3,000 and $500, respectively. Directors who are officers of the Corporation receive only the meeting fee for meetings of the board of directors.

STOCK OPTION PLAN

Executive officers of the Corporation participate in the Corporation's Stock Option Plan. Under this plan, the Chairman of the Board of the Corporation may designate employees of the Corporation or its subsidiaries to be offered options to purchase in the aggregate 700,000 Class A non-voting shares of the Corporation. The price payable upon the exercise of any option granted is the closing market price of the Class A non-voting shares on the last trading day immediately preceding the date of the grant. The term within which an option may be exercised is ten years from the date of the grant. Up to 20% of the shares subject to an option may be purchased on and following each of the first five anniversaries of the date of the grant, and any unexercised options may be carried over to subsequent years. Options are not assignable and terminate upon the termination of the employee's employment with the Corporation and its subsidiaries for reasons other than retirement, disability or death.

During 1985, options to purchase a total of 425,000 Class A non-voting shares were granted to four executive officers and options to purchase 130,000 Class A non-voting shares were granted to six other officers of the Corporation and its subsidiaries. All of the options were granted on February 25, 1985 and are exercisable at a price of $16.75 per share. The price range of the Class A non-voting shares of the Corporation on The Toronto Stock Exchange during the 30 days prior to February 25, 1985 was $16.50 to $17.25.

EMPLOYMENT AGREEMENTS

The Corporation has entered into employment agreements with four of its executive officers. The agreements are for a term of five years ending April 26, 1989 and contain substantially identical terms with the exception of salaries. The amounts of salary paid and the value of benefits provided under these agreements during 1985 have been included in the remuneration table above.

Under these agreements the Corporation has undertaken to provide for each of the four officers a pension payable at any time after age 55 in the amount of 70% of the executive officer's highest average annual base salary during the consecutive 60 month period for which such average was the highest, reduced by two percentage points for each year or partial year that the officer's age is less than 65 at the time of retirement. The pension payable will be further reduced by the amount of pension income ordinarily payable under the Corporation's Retirement Plan.

Each agreement provides for (i) a $10,000 benefit upon the death of an officer prior to retirement or termination; (ii) a death benefit equal to the difference between (a) 3.3 times the executive officer's base salary and (b) the amount payable under the Corporation's group life insurance policies; and (iii) disability benefits assuring the officer will receive one-half of his base salary in the event of total disability.

The agreements may be terminated by the Corporation on 24 months notice or payment in lieu of notice.

ATCOR PARTICIPATION PLAN

Pursuant to a Plan established in 1982, certain employees, officers and directors of ATCOR Resources Limited ("ATCOR"), some of whom are officers of the Corporation, may participate by investing with ATCOR in the ATCOR Participation Plan. Under the Plan participants may, subject to approval by ATCOR, request to participate in oil and/or gas wells drilled or acquired by ATCOR and thereby share the risks and benefits of such wells with ATCOR.

Provided ATCOR has previously designated a well as subject to the Plan, a participant may request participation in any proposed well, in any cased well, and in the acquisition of any producing or non-producing well.

Each participant is assigned a "participation factor". Upon acceptance by ATCOR a participant is entitled to an interest in the well equal to the interest of ATCOR multiplied by his participation factor. The participant's interest is entitled to a proportionate share of all benefits in any such well and is liable for his proportionate share of all of ATCOR's costs in respect of any such well other than petroleum and natural gas lease acquisition costs, geological costs or geophysical costs incurred with respect to a well.

APPOINTMENT OF AUDITOR

The persons named in the accompanying form of proxy intend to vote for the appointment of Price Waterhouse as the auditor of the Corporation to hold office until the next annual meeting of shareholders of the Corporation. Price Waterhouse was first appointed in 1981.

AMENDMENTS TO BY-LAW NO. 1

The board of directors of the Corporation has resolved to remove the age restrictions on directors and honorary directors by amending Sections 4.02 and 4.04 of By-Law No. 1, the by-law relating generally to the transaction of the business and affairs of the Corporation, as follows:

(a) Section 4.02 is amended by deleting the words "if he has reached the age of 70 at the date fixed for his election;" such that Section 4.02 shall read as follows:

"4.02 QUALIFICATION—No person shall be qualified for election as a director if he is less than 18 years of age; if he is of unsound mind and has been so found by a court in Canada or elsewhere; if he is not an individual; or if he has the status of a bankrupt. A director need not be a shareholder of the Corporation. A majority of the directors shall be resident Canadians. At least two directors shall not be officers or employees of the Corporation or its affiliates."

(b) Section 4.04 is amended by deleting the words "Section 4.02 shall apply mutatis mutandis to honorary directors except that the reference to the age of 70 shall be replaced by the age of 75." and by deleting the words ", subject to the provisions of this section 4.04 regarding age," such that Section 4.04 shall read as follows:

"4.04 HONORARY DIRECTORS—The board may appoint honorary directors from among retiring or retired directors provided the candidate has served as a director for at least five years.

Honorary directors will be entitled to receive notice of all meetings of the board, to attend meetings and to participate in all discussions but shall not be entitled to move, second or vote on any resolution, nor shall they be counted for purposes of section 4.01. An honorary director shall retire at the next following annual meeting of shareholders but shall be eligible for reappointment. The names of all honorary directors will appear in such reports and other documents published by the Corporation as the board may determine."

GENERAL

The contents and the sending of this Management Proxy Circular have been approved by the directors of the Corporation.

DATED at Edmonton, Alberta, this 14th day of March, 1986.

A. M. Anderson

A.M. Anderson,
Secretary

CANADIAN UTILITIES LIMITED

Notice of Annual Meeting of Shareholders

May 20, 1987

NOTICE IS GIVEN that the Sixtieth Annual Meeting of Shareholders of Canadian Utilities Limited will be held at the Calgary Convention Centre, Calgary, Alberta on Wednesday, the 20th day of May, 1987 at the hour of 10:00 o'clock in the forenoon, Mountain Daylight Time, for the following purposes:

1. to receive and consider the annual report containing the consolidated financial statements for the year ended December 31, 1986, accompanied by the report of the auditor;
2. to elect directors;
3. to appoint the auditor; and
4. to transact such other business as may properly be brought before the Annual Meeting or an adjournment thereof.

DATED at Edmonton, Alberta this 1st day of April, 1987.

By Order of the Board,

A.M. Anderson

A.M. Anderson
Secretary

If you are unable to attend the meeting kindly complete and sign the accompanying form of proxy and return it in the envelope provided to reach the Corporation at least 48 hours, excluding Saturdays and holidays, preceding the Annual Meeting or an adjournment thereof.

MANAGEMENT PROXY CIRCULAR

SOLICITATION OF PROXIES

This Management Proxy Circular is furnished in connection with the solicitation by the management of CANADIAN UTILITIES LIMITED (the "Corporation") of proxies to be used at the Annual Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the accompanying notice. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by officers and employees of the Corporation. The cost of the solicitation by management will be borne by the Corporation.

APPOINTMENT OF PROXYHOLDER AND REVOCATION OF PROXY

The persons named in the accompanying form of proxy are directors of the Corporation. A shareholder entitled to vote at the Annual Meeting may by means of a proxy appoint a proxyholder and one or more alternate proxyholders, who are not required to be shareholders, other than the persons designated in the accompanying form of proxy, to attend and act at the Annual Meeting in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. This right may be exercised either by striking out the names of the persons designated in the form of proxy and inserting in the space provided the name of the other person or persons a shareholder wishes to appoint or by completing and executing another proper form of proxy. A shareholder desiring to be represented at the Annual Meeting by a proxyholder must deposit a proxy with the Corporation at least 48 hours, excluding Saturdays and holidays, preceding the Annual Meeting or an adjournment thereof.

A shareholder may revoke a proxy by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing at the registered office of the Corporation, 1927, 10035 - 105 Street, Edmonton, Alberta, T5J 2V6, at any time up to and including the last business day preceding the day of the Annual Meeting, or an adjournment thereof, at which the proxy is to be used, or with the chairman of the Annual Meeting on the day of the Annual Meeting or an adjournment thereof.

CLASS B COMMON SHARES AND PRINCIPAL HOLDERS THEREOF

There are outstanding 25,061,577 Class B common shares of the Corporation entitled to be voted at the Annual Meeting. Each Class B common share entitles the holder thereof to one vote. The directors have fixed April 14, 1987 as the record date for determining shareholders entitled to receive Notice of the Annual Meeting of Shareholders.

To the knowledge of the directors and officers of the Corporation, the only persons who beneficially own or exercise control or direction over shares of the Corporation carrying more than 10% of the votes attached to the shares of the Corporation are ATCO Ltd. ("ATCO") and TransAlta Resources Corporation ("TransAlta Resources"), a wholly-owned subsidiary of TransAlta Utilities Corporation ("TransAlta Utilities"). ATCO indirectly owns 13,578,552 Class B common shares, being approximately 54.2% of the Class B common shares outstanding. R. D. Southern controls ATCO. Reference is made to "Election of Directors". TransAlta Resources owns 3,349,274 Class B common shares, being approximately 13.4% of the Class B common shares outstanding. On August 3, 1982 the Corporation, ATCO and TransAlta Utilities entered into an agreement (the "Divestiture Agreement") intended to resolve certain differences among the corporations arising from reciprocal shareholdings. In addition to other matters, the Divestiture Agreement provides that the Corporation and TransAlta Utilities shall (a) vote in favour of any corporate reorganization; and (b) not oppose any other matter proposed by the other at shareholders' meetings except as to a vote upon a corporate reorganization or upon any other matter which would materially reduce the value to the Corporation or TransAlta Utilities of its investment in the shares of the other corporation. On November 25, 1983 TransAlta Utilities issued warrants to purchase 7,856,250 Class B common shares of the Corporation at the price of $15.00 per share on or before December 15, 1987. In the event that all of the warrants are exercised, TransAlta Utilities will have divested itself of all of its presently held Class B common shares of the Corporation.

CLASS A NON-VOTING SHARES

The holders of the Class A non-voting shares of the Corporation are entitled to receive Notice of the Annual Meeting of Shareholders and to attend and participate in discussions at the Annual Meeting, but are not entitled to vote at the Annual Meeting.

If a take-over bid is made for the Class B common shares which would result in the offeror owning more than 50% of the outstanding Class B common shares and which would constitute a change in control of the Corporation, holders of Class A non-voting shares are entitled, for the duration of the bid, to exchange their Class A non-voting shares for Class B common shares and to tender such Class B common shares pursuant to the terms of the take-over bid. In addition, holders of the Class A non-voting shares are entitled to exchange their shares for Class B common shares of the Corporation if ATCO, the present controlling shareholder of the Corporation, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B common shares of the Corporation. In either case, each Class A non-voting share is exchangeable for one Class B common share, subject to changes in the exchange ratio for certain events such as a stock split or a rights offering. The complete text of the rights of exchange attached to the Class A non-voting shares is set out in a Certificate of Amendment dated September 10, 1982 issued to the Corporation.

VOTING OF PROXIES

All Class B common shares of the Corporation represented by a proxy in favour of the persons designated in the accompanying form of proxy will be voted or withheld from voting on any ballot that may be called for in accordance with the instructions of the shareholder contained in the proxy. Where no choice is specified by the shareholder in the proxy, the proxy will be voted in favour of the two specific matters referred to therein.

The accompanying form of proxy confers discretionary authority in respect of amendments to matters identified in the Notice of Annual Meeting of Shareholders and in respect of other matters that may properly come before the Annual Meeting. The management of the Corporation is not aware of any amendments to matters identified in the Notice of Annual Meeting of Shareholders or of other matters that are to be presented for action at the Annual Meeting.

ELECTION OF DIRECTORS

The management of the Corporation proposes to nominate, and the persons named in the accompanying form of proxy intend to vote for the election as directors of the Corporation, the persons whose names are set forth below, all of whom are now directors and have been for the periods indicated. The management of the Corporation does not contemplate that any one of the nominees will be unable to serve as a director. Each director elected will hold office until the close of the next annual meeting of shareholders of the Corporation. Following is information with respect to each proposed nominee for the board of directors.

Names of proposed nominees and all other major positions and offices held with the Corporation	All major positions and offices held with significant affiliates of the Corporation	Principal occupation or employment	Periods served as a director of the Corporation	Approximate number of shares of each class of shares of the Corporation and of ATCO beneficially owned or over which control or direction is exercised
W.L. Britton, Q.C. (1)	Director of ATCO and of Alberta Power Limited (4)	Partner, Bennett Jones (barristers & solicitors)	1980 to date	675 Series H second preferred shares of the Corporation; 5,014 Class I non-voting and 3,935 Class II voting shares of ATCO

Names of proposed nominees and all other major positions and offices held with the Corporation	All major positions and offices held with significant affiliates of the Corporation	Principal occupation or employment	Periods served as a director of the Corporation	Approximate number of shares of each class of shares of the Corporation and of ATCO beneficially owned or over which control or direction is exercised
G.L. Crawford, Q.C. (1) (3)	Director of Canadian Western Natural Gas Company Limited	Associate, Parlee McLaws (barristers & solicitors)	1972 to date	285 Class A non-voting, 100 Class B common and 650 Series K second preferred shares and 1,000 CU-B warrants of the Corporation
B.K. French (2)	Director of ATCO (4)	President, Karusel Management Ltd. (property management and management consultants)	1981 to date	350 Class B common and 6,000 Series L second preferred shares of the Corporation; 1,900 Class I non-voting and 3,700 Class II voting shares of ATCO
V.L. Horte (1)		President, V.L. Horte Associates Limited (oil, gas and energy consulting firm)	1981 to date	100 Class A non-voting and 100 Class B common shares of the Corporation
W.R. Horton, Executive Vice President, Utilities (1)	Director of Alberta Power Limited, Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and ATCOR Ltd.	Executive Vice President, Utilities of the Corporation	1984 to date	100 Class B common shares of the Corporation; 100 Class II voting shares of ATCO
H.E. Joudrie (3)		President and Chief Executive Officer, ENCOR Energy Corporation Inc. (oil and gas exploration and development company)	1982 to date	2,000 Class A non-voting shares of the Corporation
E.W. King (2)	Director of ATCO	Corporate Director	1968 to date	3,174 Class A non-voting and 3,174 Class B common shares of the Corporation; 3,000 Class I non-voting and 1,000 Class II voting shares of ATCO
R.W.A. Laidlaw (3)		President and Chief Executive Officer, Gibson Petroleum Company Limited (marketing and transportation company)	1981 to date	100 Class B common shares of the Corporation; 500 Class I warrants of ATCO
C.M. Leitch, Q.C. (2)		Partner, Macleod Dixon (barristers & solicitors)	1984 to date	200 Class A non-voting shares of the Corporation
D.R.B. McArthur (2)		Corporate Director	1969 to date	101 Class A non-voting, 101 Class B common, 1,500 Series H and 1,000 Series I second preferred shares of the Corporation
W.S. McGregor		President and Chief Executive Officer, Numac Oil & Gas Ltd. (oil, gas and mineral exploration company)	1972 to date	500 Class I non-voting shares of ATCO

Names of proposed nominees and all other major positions and offices held with the Corporation	All major positions and offices held with significant affiliates of the Corporation	Principal occupation or employment	Periods served as a director of the Corporation	Approximate number of shares of each class of shares of the Corporation and of ATCO beneficially owned or over which control or direction is exercised
C.S. Richardson, Deputy Chairman of the Board and Chief Financial Officer (1)	Director of Alberta Power Limited, Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and ATCOR Ltd. and Senior Vice President, Finance and director of ATCO (4)	Deputy Chairman of the Board and Chief Financial Officer of the Corporation and Senior Vice President, Finance, ATCO (natural resource services, property development and manufacturing company)	1980 to date	1,000 Class B common, 400 Series K and 1,000 Series L second preferred shares of the Corporation; 12,544 Class I non-voting and 14,800 Class II voting shares of ATCO
D.M. Ritchie (1)		President, Medway Investments Corporation Ltd. (real estate properties and energy resources management company)	1981 to date	200 Class A non-voting shares of the Corporation; 400 Class II voting shares of ATCO
N.W. Robertson (2)	President and Chief Operating Officer and director of ATCO and director of ATCOR Ltd. (4)	President and Chief Operating Officer, ATCO	1980 to date	3,500 Class A non-voting shares of the Corporation; 16,211 Class I non-voting and 1,600 Class II voting shares of ATCO
R.D. Southern, Chairman of the Board and Chief Executive Officer (1)	Chairman of the Board and Chief Executive Officer and director of Alberta Power Limited, Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited, Chairman of the Board and director of ATCOR Ltd. and Deputy Chairman of the Board and Chief Executive Officer and director of ATCO. (4)	Chairman of the Board and Chief Executive Officer of the Corporation and Deputy Chairman of the Board and Chief Executive Officer, ATCO	1977 to 1979 1980 to date	1 Class A non-voting, 18,601 Class B common, 45,000 Series H, 8,000 Series I, 20,000 Series K and 20,000 Series M second preferred shares, and 14,200 CU-B warrants of the Corporation; 5,186,313 Class I non-voting and 2,812,580 Class II voting shares of ATCO (5)
J.D. Wood, President and Chief Operating Officer (1) (3)	Deputy Chairman of the Board and director of Alberta Power Limited, Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and ATCOR Ltd. and director of ATCO. (4)	President and Chief Operating Officer of the Corporation	1981 to date	5,000 Class A non-voting shares of the Corporation; 1,000 Class II voting shares of ATCO

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Human Resources Committee
(4) Director or officer of subsidiaries of ATCO
(5) R.D. Southern owns 60% and ADSCO Investments Ltd., a company of which R. D. Southern is the sole common shareholder, owns 40% of the equity shares of Sentgraf Enterprises Ltd. which owns 3,043,552 Class I non-voting shares and 1,521,776 Class II voting shares of ATCO. ADSCO Investments Ltd. owns 528,406 Class I non-voting shares and 262,624 Class II voting shares of ATCO. The stated shareholdings of R. D. Southern include these shares. R. D. Southern controls ATCO which is the beneficial owner of 13,578,552 Class A non-voting and 13,578,552 Class B common shares of the Corporation.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation, ATCO and their affiliates have purchased insurance with an annual aggregate limit of $15,000,000 for such corporations and for their directors and officers. The approximate amount of premium paid by the Corporation in the financial year ended December 31, 1986 in respect of directors of the Corporation as a group was $5,204 and in respect of the officers of the Corporation as a group was $6,505. No part of the premium was paid by any director or officer. The Corporation is responsible for the first $1,000,000 of any loss and $1,000 is deductible in respect of claims against each director or officer to a maximum of $25,000.

REMUNERATION OF DIRECTORS AND OFFICERS

The following statement sets forth the aggregate remuneration paid or payable by the Corporation and by each of its subsidiaries in respect of the Corporation's financial year ended December 31, 1986 to the directors in their capacity as directors of the Corporation and its subsidiaries and, separately, to the officers of the Corporation who, in their capacity as officers or employees of the Corporation and its subsidiaries, received aggregate remuneration in excess of $40,000 in that year.

	NATURE OF REMUNERATION			
	Directors' fees	Salaries	Other(1)	Total
REMUNERATION OF DIRECTORS				
(A) Number of directors: 16				
(B) Body corporate incurring the expense:				
Corporation	$203,500			$ 203,500
Alberta Power Limited	4,500			4,500
Canadian Western Natural Gas Company Limited	4,800			4,800
ATCOR Ltd.	10,350			10,350
REMUNERATION OF OFFICERS				
(A) Number of officers, of whom 4 are directors: 12				
(B) Body corporate incurring the expense:				
Corporation	23,500	$1,398,079	$104,475	1,526,054
Alberta Power Limited	6,100	282,210	24,267	312-577
Canadian Western Natural Gas Company Limited	4,800	282,210	24,267	311,277
Northwestern Utilities Limited	5,100	282,210	24,267	311,577
ATCOR Ltd.	11,300			11,300
TOTALS	$273,950	$2,244,709	$177,276	$2,695,935

(1) This represents the estimated aggregate cost to the Corporation and its subsidiaries in the Corporation's financial year ended December 31, 1986 of all benefits proposed to be paid under any pension or retirement plan upon retirement at normal retirement age. The only pension or retirement benefits payable to the directors of the Corporation are payable to directors who are or have been officers of the Corporation.

(2) In 1986, there were 13 executive officers of the Corporation within the meaning of the Securities Acts of Alberta, Ontario and Quebec. The aggregate cash compensation paid to the executive officers by the Corporation and its subsidiaries for services rendered during 1986 was $2,948,900.

COMPENSATION OF DIRECTORS

Directors of the Corporation have fixed the annual retainer for directors, the annual retainer for chairmen of committees and meeting fees, which in 1986 amounted to $10,000, $3,000 and $500, respectively. Directors who are officers of the Corporation receive only the meeting fee for meetings of the board of directors.

STOCK OPTION PLAN

Executive officers of the Corporation participate in the Corporation's Stock Option Plan. Under this plan, the Chairman of the Board of the Corporation may designate employees of the Corporation or its subsidiaries to be offered options to purchase in the aggregate 700,000 Class A non-voting shares of the Corporation. The price payable upon the exercise of any option granted is the closing market price of the Class A non-voting shares on the last trading day immediately preceding the date of the grant. The term within which an option may be exercised is ten years from the date of the grant. Up to 20% of the shares subject to an option may be purchased on and following each of the first five anniversaries of the date of the grant, and any unexercised options may be carried over to subsequent years. Options are not assignable and terminate upon the termination of the employee's employment with the Corporation and its subsidiaries for reasons other than retirement, disability or death.

Since January 1, 1986, options to purchase a total of 125,000 Class A non-voting shares have been granted to five executive officers of the Corporation. All of the options were granted on February 17, 1987 and are exercisable at a price of $19.50 per share. The price range of the Class A non-voting shares on The Toronto Stock Exchange during the 30 days prior to February 17, 1987 was $19.00 to $19.75. To date a total of 680,000 options have been granted.

Since January 1, 1986 and to date, options to purchase 6,000 Class A non-voting shares were exercised. The aggregate net value (market price at the date of exercise less exercise price) of those shares was $14,375.

EMPLOYMENT AGREEMENTS

The Corporation has entered into employment agreements with four of its executive officers. The agreements are for a term of five years ending April 26, 1989 and contain substantially identical terms with the exception of salaries. The amounts of salary paid and the value of benefits provided under these agreements during 1986 have been included in the remuneration table above.

Under these agreements the Corporation has undertaken to provide for each of the four officers a pension payable at any time after age 55 in the amount of 70% of the executive officer's highest average annual base salary during the consecutive 60 month period for which such average was the highest, reduced by two percentage points for each year or partial year that the officer's age is less than 65 at the time of retirement. The pension payable will be further reduced by the amount of pension income ordinarily payable under the Corporation's Retirement Plan.

Each agreement provides for the payment of certain benefits upon the death or total disability of an officer prior to retirement or termination. The amounts of such benefits are based on the officer's base salary and are determined in accordance with formulas which take into account amounts payable to the officer under the Corporation's group life insurance policies and disability income programs. The agreements may be terminated by the Corporation on 24 months notice or payment in lieu of notice.

ATCOR PARTICIPATION PLAN

Pursuant to a Plan established in 1982, certain employees, officers and directors of ATCOR Ltd. (''ATCOR''), some of whom are officers of the Corporation, may participate by investing with ATCOR in the ATCOR Participation Plan. Under the Plan participants may, subject to approval by ATCOR, request to participate in oil and/or gas wells drilled or acquired by ATCOR and thereby share the risks and benefits of such wells with ATCOR.

Provided ATCOR has previously designated a well as subject to the Plan, a participant may request participation in any proposed well, in any cased well, and in the acquisition of any producing or non-producing well.

Each participant is assigned a ''participation factor''. Upon acceptance by ATCOR a participant is entitled to an interest in the well equal to the interest of ATCOR multiplied by his participation factor. The participant's interest is entitled to a proportionate share of all benefits in any such well and is liable for his proportionate share of all of ATCOR's costs in respect of such well other than petroleum and natural gas lease acquisition costs, geological costs or geophysical costs incurred with respect to a well.

APPOINTMENT OF AUDITOR

The persons named in the accompanying form of proxy intend to vote for the appointment of Price Waterhouse as the auditor of the Corporation to hold office until the next annual meeting of shareholders of the Corporation. Price Waterhouse was first appointed in 1981.

GENERAL

The contents and the sending of this Management Proxy Circular have been approved by the directors of the Corporation.

DATED at Edmonton, Alberta, this 1st day of April, 1987.

A.M. Anderson

A.M. Anderson,
Secretary